

FINANCIAL TIMES



Russian elections
Zyuganov on the Siberian stump

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Smart jets
Sensing their own metal fatigue

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Stable politics are not enough

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World Business Newspaper

THURSDAY JUNE 6 1996

Santer pushes for more flexibility in EU working hours

European Commission president Jacques Santer called for more flexible working hours, including parental leave, saying they could make a significant contribution to tackling the unemployment crisis in Europe. Mr Santer said that reorganising working time would be a central theme in talks with business and trade unions on his proposed pact of confidence on employment. His call came as a European Union survey showed consumer concern about unemployment was growing. Page 14

Paris, Bonn promise defence merger: France and Germany pledged to define a "common security and defence concept" following Paris' improving relations with Nato and its recent army reforms. At the end of a summit, President Jacques Chirac and Chancellor Helmut Kohl pledged they would finalise their joint "concept" at the next regular Franco-German summit in December.

Swab Automobile, the struggling Swedish carmaker managed and half-owned by General Motors, is to produce three new models and revamp its US sales operation along the lines of GM's innovative Saturn subsidiary. Page 15

Italian inflation declines: Italy's inflation rate fell slightly last month to an annualised figure of 4.3 per cent against 4.5 per cent in the previous two months. Page 2

Digital TV alliance breaks up: An ambitious digital television alliance between Bertelsmann of Germany, Canal Plus of France and British Sky Broadcasting to develop established digital television in Germany looked to have broken up as the parties criticised each other. Page 14 and 15

Germany revises economic figures: The German economy contracted as expected in the first quarter but a slight upward revision to earlier figures indicated that the country is experiencing a slowdown rather than a recession. Page 2

Call to end UK non-co-operation: The European Commission called on Britain to stop its policy of non-co-operation in the European Union, warning it delayed a deal on lifting the ban on British beef. Page 8

Yeltsin wins cash pledge: President Boris Yeltsin convinced Russia's Communist-dominated parliament to agree to provide extra money for teachers' holiday pay and hard-hit defence plants - but the move could threaten Russian financial markets days before the presidential election. Page 2

Hoechst, the German chemicals group, is pulling out of the market for CFC substitutes, selling most of its fluorochlorochemicals business to Belgium's Solvay. Page 17

\$230m Veba deal opposed: Germany's cartel office challenged Veba's DM350m (\$230m) acquisition of a 24.9 per cent stake in Bremen's public utility company but the industrial conglomerate said it would appeal. Page 3

Rhône-Poulenc, the French chemicals company, is expected to announce the sale of US drugs businesses worth more than \$700m (\$100m) as part of a \$1.1bn plan to halve the group's debt burden. Page 17

US in Mexican money laundering probe: The US Justice Department has launched an inquiry into whether the US banking system was used to launder money by Raúl Salinas (left), brother of former Mexican President Carlos Salinas. The inquiry comes in addition to investigations in Mexico, the UK and Switzerland to determine the source of more than \$122m held by Mr Raúl Salinas in Swiss and UK bank accounts. Page 4

Chinese landslides kill 66: Sixty-six people were killed and 162 were missing after two huge landslides struck a gold-mining area of south-west China, the official Xinhua news agency said.

Search for Kashmiri hostages called off: Indian and foreign experts ended a three-day search for clues to the fate of four Western hostages, including two Britons, held in Kashmir since last July. No leads were found despite reports that they had been killed.

Mountains of garbage: Nepalese climbers have collected 2,000 kg (4,400 lbs) of garbage on Mount Everest and say at least 15,000 kg of decades-old rubbish remains to be collected from the world's highest mountain.

STOCK MARKET INDICES

New York: S&P 500	5,880.17 (+5.54)
NASDAQ Composite	1,244.84 (+0.39)
London: FTSE 100	2,552.82 (+1.18)
Nikkei	21,881.43 (+2.31)

US LUNDSMITH RATES

Federal Funds	5 1/8%
3-month Treasury Bill	5.125%
Long Term	7 1/8%
Yield	6.825%

OTHER RATES

UK 3-month Interbank	6 1/8%
DK 10 yr Gilt	8 1/8%
France 10 yr OAT	10.18%
Germany 10 yr Bund	9.81%
Japan 10 yr JGB	9.17%

NORTH SEA OIL (Average)

Brent Blend	\$18.23 (18.47)
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Country	City	Oil Price
Algeria	Uthmaniyah	15.00
Australia	Suez	15.00
Bahrain	Uthmaniyah	15.00
Belgium	Antwerp	15.00
Canada	Montreal	15.00
China	Shanghai	15.00
Denmark	Copenhagen	15.00
Egypt	Suez	15.00
France	Strasbourg	15.00
Germany	Bremen	15.00
India	Mumbai	15.00
Italy	Genoa	15.00
Japan	Osaka	15.00
Korea	Seoul	15.00
Libya	Uthmaniyah	15.00
Malaysia	Kuala Lumpur	15.00
Netherlands	Rotterdam	15.00
Norway	Oslo	15.00
Qatar	Doha	15.00
Russia	Uthmaniyah	15.00
Saudi Arabia	Dammam	15.00
Singapore	Singapore	15.00
Spain	Bilbao	15.00
Sweden	Stockholm	15.00
Switzerland	Zurich	15.00
Taiwan	Taipei	15.00
Texas	Houston	15.00
Thailand	Bangkok	15.00
Turkey	Istanbul	15.00
UAE	Dubai	15.00

Threat to prices when Iraq re-enters market

Opec effort to crack down on oil quotas set to fail

By Robert Corzine in Vienna

An attempt by some members of the Organisation of Petroleum Exporting Countries to end persistent violations of oil quotas looked set to fail last night.

Failure of the initiative would threaten a price collapse following the re-introduction of Iraq into world oil markets over the next few months.

A number of delegates to Opec's 100th ministerial meeting, which opened in Vienna yesterday, called for urgent steps to ensure that persistent quota busters, such as Venezuela, rein in their over-production. But Saudi Arabia, Opec's largest producer, appeared doubtful about the success of any crackdown.

Iraq last month reached agreement with the United Nations to export \$3bn in oil over a six-month period to pay for food and medical supplies. Opec delegates will today begin discussing arrangements that would boost Iraq's current quota by around 700,000 barrels a day in order to meet the UN revenue target. But many delegates said an expanded Iraqi quota needed to be offset by cuts from those members currently cheating on their quotas.

One Opec official said: "We need to shave 600,000 barrels a day off Opec's current production level." That level is running at about 1.6m barrels a day above the group's official production ceiling of 24.52m barrels a day.

Other officials called for even tougher action against quota violators, which industry analysts say include Nigeria, Algeria, Qatar and Gabon. "Over-production should be cut by the whole amount," said Mr Abdalla Salem El-Badri, Libya's oil minister.

But Saudi Arabia, which at last November's Opec meeting adopted a tough line with Venezuela, yesterday appeared ambivalent about pursuing such a strategy.

"People are talking about cuts," said one Gulf Arab official, "but Opec has no enforcement mechanism and all members are independent sovereign countries."

Opec officials say Saudi Arabia's priority at this week's meeting is simply to secure agreement on a new Iraqi quota, which would be added to the present production ceiling for the next six months.

Riyadh appears to have taken the view that robust worldwide

demand for oil and possible delays in Iraqi oil actually reaching world markets will minimise the risk of a price collapse.

A Gulf Arab official yesterday predicted that "meaningful" amounts of Iraqi oil were unlikely to hit the markets until the fourth quarter of the year, although Iraqi officials have this week been boasting about their ability to boost the country's production to the required levels in a matter of weeks.

The Gulf Arab official added that if the relatively optimistic view of world oil demand and supply prevailed, then in the fourth quarter "we would still have a balanced market at worse or one on the tight side at best".

US companies have been officially authorised to buy Iraqi oil under the terms of the UN deal, the State Department said yesterday, AFP adds from Washington.

"This is not a change in our policy with respect to Iraq," said Mr Michael McCurry, White House spokesman. "We supported those oil sales because we believe the American oil and gas industry can be a part of the management of those sales, so that the proceeds go to the people who are badly in need of relief."



Saudi Arabian oil minister Ali Bin Ibrahim al-Nuaimi laughs while talking to journalists at the opening session of the Opec conference in Vienna yesterday.

Big Dutch bank takes control of fund manager

By David Brown in Amsterdam

Rabobank, Holland's second-largest bank, has agreed to take control of Robeco, a leading Dutch fund management group, as part of a strategy to build up rapidly its position in international life insurance and fund management businesses.

It is the latest in a series of large alliances to be formed by European financial institutions aimed at exploiting the so-called "Alliance" markets, combining banking, insurance and fund management products.

The deal, which foresees both companies continuing to operate under their own names, would bring together two of Europe's leaders in their fields.

Rabobank, with total assets of Fl 293.5bn (\$177bn), is one of the few international banks that retains triple A ratings from all major credit agencies. Robeco has Fl 75bn in funds under management.

Under the terms of the preliminary agreement Rabobank, a cooperative with roots in agricultural banking, will initially acquire a 50 per cent equity stake in Robeco's umbrella management arm, Robecoam, for approximately Fl 500m.

Rabobank will gradually shift some Fl 30bn in investment funds now managed by its inter-polis insurance subsidiary and private banking subsidiaries over to management by Robeco.

Provided that "further co-operation proves to be successful", Rabobank will purchase the remaining Robeco equity by means of a performance-related trigger to be exercised within "four or five years". Rabobank's chairman Hermann Wijffels said.

The second tranche of the two-stage deal is to be triggered when Robeco's funds under management have doubled.

Robeco is known mainly for its four listed investment funds: Robeco and Rolinco, which invest in shares; Rorente which focuses on fixed income instruments; and Rodamco, which invests in property.

"Robeco needs a partner which not only offers distribution

ING attacks German rival over poaching

Formal complaint made after 44 staff defect to DMG from Latin American office

By Nicholas Denton in London

Deutsche Morgan Grenfell, the investment banking arm of Deutsche Bank, came under attack from competitors yesterday for predatory poaching of staff and bidding up pay in the securities industry to "outrageous" levels.

Internationale Nederlanden Groep, which this week lost 44 executives from its Latin American equities operations, has made a formal complaint to Mr Hilmar Kopper, chairman of Deutsche Bank.

"We said that we totally disagreed with these practices followed by Deutsche Morgan Grenfell," said Mr Hessel Lindenberg, chief executive of ING Barings, the merged investment bank created last year after the Dutch bank rescued Barings.

"I think there is growing resistance and irritation in the industry towards firms which deliberately poach whole teams," he added. "Poaching teams pushes up pay unduly."

Mr Lindenberg said he shared concern - expressed at a banking conference on Tuesday by Mr Andrew Buxton, chairman of Barclays Bank of the UK - about the practice of giving guaranteed bonuses over two to three years. He said the \$20m packages over three years being offered to some individuals in the US were extraordinary.

Deutsche decided to build its investment banking operations in Saudi Arabia at prices well below cost. Three senior executives have since been sacked. The state prosecutor in Cologne, where the company is based, is conducting investigations into a group of 15 people, including KHD executives and suppliers.

The DM\$22m losses at Humboldt Wedag - considerably higher than the DM\$50m first reported - include a DM\$22m provision for penalties arising from the three Saudi contracts. Deutsche Bank, which owns 47.7 per cent of KHD and has been co-ordinating the efforts to save the company, will bear the brunt of the rescue package, putting up DM\$50m. This includes forgiving debts worth DM150m, supplying DM205m of fresh money, and a number of other measures worth DM150m.

The package also includes:

• An agreement by a consortium of 30 German and international banks to waive interest payments until March 31 1997, a concession worth DM350m.

• The city of Cologne and the state of North Rhine-Westphalia will together buy KHD properties worth DM187m which KHD will rent back.

• KHD employees have agreed to take an average 5 per cent wage cut, accept longer working hours and forgo some of their pension entitlements, measures which will save KHD DM110m.

Mr Schneider forecast that Dentz would make an operating loss of DM36.4m this year and that the size of a net profit or loss this year would depend on the sale of Humboldt Wedag.

Talks had begun with "interested parties" about the sale of Humboldt Wedag, which has a turnover of about DM1.5bn. However, Krupp Polysius, the cement plant subsidiary of the Krupp engineering group which has been named as a possible buyer, said it was not talking to KHD.

He said he wanted to squash the notion that DMG had a standard policy of doubling pay and guaranteeing it over several years.

A US investment bank executive said that while DMG could fail to hold together the organisation it had created, its poaching would damage competitors. The Bank of England said it was up to the market to determine the level of pay, but it had concerns about the way bonuses were paid.

ING Barings said it had

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Continued on Page 14

Creditors agree \$670m rescue package for KHD

By Michael Lindemann in Frankfurt

KHD, one of the best known names in German engineering, ran into difficulties 10 days ago when senior executives admitted that they had taken on contracts for three cement plants in Saudi Arabia at prices well below cost. Three senior executives have since been sacked. The state prosecutor in Cologne, where the company is based, is conducting investigations into a group of 15 people, including KHD executives and suppliers.

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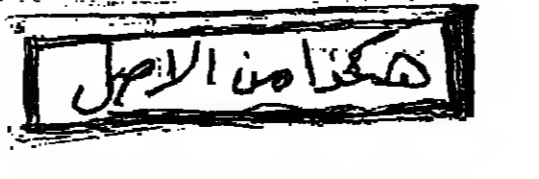
Singer & Friedlander Corporate Finance

A successful first half of 1996

The following represent a selection of transactions upon which Singer & Friedlander has advised during 1996.

HARTONS GROUP P.L.C. Cash Offers by Schuttersveld Holding NV Hartons Group was advised by Singer & Friedlander January 1996	FREEPAGES GROUP pic Placing and Open Offer by Singer & Friedlander and Admission to the Alternative Investment Market February 1996
PLATIGNUM pic renamed Meotmore Abbey pic Acquisition of Abbey Storage Limited Placing and Open Offer by Singer & Friedlander March 1996	INGHAM PLC renamed The Knox D'Arcy Trust Pic Proposed conversion into an investment trust Ingham pic was advised by Singer & Friedlander March 1996
SEMCOON ENGINEERING AB SEK 175 million management buy-out from VBB gruppen AB the management buy-out team was advised by Singer & Friedlander April 1996	EUROPEAN TELECOM PLC Placing and Admission to the Official List Sponsored by Singer & Friedlander June 1996

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Adjusted figures suggest the country's economy is merely slowing down

Germany revises its recessionary fears

By Peter Norman in Bonn

The German economy contracted as expected in the first quarter but a slight upward revision to earlier figures indicated that the country is experiencing a slowdown rather than a recession.

Real gross domestic product fell 0.5 per cent in the first three months of this year compared with the previous quarter, the federal statistics office said yesterday. But revised figures pointed to economic stagnation in the fourth quarter of 1995 and not a 0.5 per cent fall in GDP as was

reported three months ago. Mr Günter Rexrodt, the economics minister, said the pause in economic growth that began in mid-1995 had still not been overcome.

His remarks were borne out by yesterday's provisional industrial production figures for April, which showed output in March and April combined broadly unchanged from the level of the two previous months.

Yesterday's GDP figures showed activity in eastern Germany down a real 2.5 per cent in the first quarter, but output unchanged in western Ger-

many. Construction activity declined for the third successive quarter in the country as a whole. Harsh winter weather contributed to a real 7.5 per cent slump in seasonally adjusted first quarter output after declines of 2.5 per cent and 0.5 per cent respectively in the fourth and third quarters of 1995.

The economics ministry said a strong 18 per cent jump in construction activity in April triggered a 1.4 per cent rise in the real, seasonally adjusted output of the production industries between March and April. This recovery followed

sharp, weather-induced declines in construction sector output in February and March which prompted a downward revision of overall industrial production growth in March to 0.9 per cent from 2 per cent previously reported. The ministry said it expected most of the GDP loss caused by bad weather in the first quarter would be recovered in the current three-month period.

Official figures showed that domestic demand stagnated in real and seasonally adjusted terms in the first quarter. A 0.5 per cent rise in private consumption and a 1 per cent

increase in government spending offset the building sector decline. Business investment stagnated while imports were also unchanged. Exports fell 1.5 per cent compared with the final 1995 quarter, possibly indicating some weakening in the competitiveness of German industry.

First quarter GDP was 0.3 per cent higher than a year earlier. Construction activity was down 11.8 per cent and investment in plant equipment 0.5 per cent lower. But exports of goods and services were 3 per cent higher and state spending 3.4 per cent up on the

first quarter of last year. Mr Rexrodt said prospects for a turnaround in Germany's business cycle were not bad in spite of yesterday's generally gloomy figures. Among positive factors, he mentioned "normalisation" of the D-Mark exchange rate and moderate wage increases.

Early yesterday, negotiators agreed a 1.9 per cent annual pay increase for 230,000 insurance workers with effect from May 1. The settlement was in line with recent agreements for a 1.5 per cent pay rise in the textile industry and 2 per cent for chemical workers.

Yeltsin given cash to meet poll pledges

By John Thornhill in Moscow

President Boris Yeltsin yesterday scored a notable political victory by badgering Russia's Communist-dominated parliament into agreeing to provide extra money for teachers' holiday pay and hard-hat defence plants.

But the move, bitterly opposed by the central bank, could prove an economic "own-goal", threatening instability in Russia's financial markets in the critical days before the presidential elections on June 16.

Straining to find funds to pay for his extravagant election promises, Mr Yeltsin's government rushed a bill through parliament forcing the central bank to transfer Rb5,000bn (\$1bn) from its 1994 revenues to the federal budget before June 10.

The Communist party faction, the biggest in Russia's parliament, initially opposed the bill, fearing the populist spending package would boost Mr Yeltsin's electoral fortunes. But the party's leaders, who have long complained about teachers' poor working conditions, backed down when they realised the political implications of opposing it.

Mr Vladimir Fanskiy, finance minister, denied the transfer of funds would be inflationary, claiming the money would only be lent to regional governments and had to be repaid - without interest

before the end of the year. But Mr Sergei Aleksashenko, deputy chairman of the nominally independent central bank, branded the bill "illegal" because the monetary "emission" had not been approved in the 1995 budget. He suggested the bank might even seek to overturn the decision in the courts.

Mr Aleksashenko added that the central bank could not easily produce the Rb5,000bn of revenues it received in 1994 and might be forced to print money.

Any such move would alarm Russia's volatile financial markets and almost certainly breach the terms of a three-year loan agreed with the International Monetary Fund earlier this year.

"This money may help the government settle the current problem. But there will be more problems in a week which will require Rb5,000bn or Rb25,000bn," Mr Aleksashenko said.

The finance ministry's efforts to raise extra funds by non-inflationary means to pay for Mr Yeltsin's promises have been complicated by a sharp drop in tax revenues and a slump in the government debt market.

Mr Yeltsin's re-election campaign was given a surprising boost yesterday when the widow of Mr Dzhokhar Dudayev, the slain Chechen resistance leader, said she would vote for him.



Zyuganov, in Moscow earlier in the campaign, has widespread support among the elderly but has failed to win over the young

Zyuganov seeks election boost from the 'red and passionate'

Chrystia Freeland follows the Communist campaign to Krasnoyarsk

For the orthodox Old Believers who clung to the religious traditions of their forefathers, and for free-spirited Cossacks fleeing their feudal lords, Siberia was a place of refuge from the wrath of Russian tsars. Later, it became a place of exile for thousands of political dissidents who dared to criticise the communist regime.

This week, in a final campaign trip which will take him to three of Siberia's largest cities, Mr Gennady Zyuganov, the Communist leader, is hoping that the independently-minded people of these remote eastern steppes will help him defy the increasingly dismissive forecasts of Moscow pollsters and triumph in next week's presidential ballot.

"The last 10 days are crucial and so I have a request to all of you here. Everyone must agitate at least six or seven others; it is our only hope," Mr Zyuganov yesterday urged a packed hall of party faithful in the city of Krasnoyarsk, four time zones east of Moscow.

"The Communists of Krasnoyarsk, which can be translated literally as 'red and passionate', responded with enthusiasm, giving their smiling candidate a thunderous standing ovation.

Gennady Andreyevich, you must feel that behind you there is a strong Siberian brigade," said Mr Vladimir Yurchik, head of the local party committee, feeling perhaps that his leader might need a lift after a wave of recent polls showing President Boris Yeltsin ahead of his Communist rival. "I think I can promise you that here in Krasnoyarsk, Zyuganov will win a majority."

On the hustings there, and in neighbouring Novosibirsk, Mr Zyuganov comes across as a more formidable figure than he can appear from the perspective of Moscow, where the chattering classes have already written him off.

But in these two vast Siberian regions, where Communists dominated the Decembrer parliamentary poll, Mr Zyuganov is a seemingly inexhaustible campaigner. He addresses invariably crowded halls and answers questions with a patience which

his supporters praise as one of his best qualities.

And although even the most fervent Communist is unlikely to describe Mr Zyuganov as charismatic - his backers prefer adjectives like "calm" and "sober" - the notoriously dull candidate seems to be making an effort to pepper his speeches with a few jokes.

The one-liner which audiences like best is a double-barrelled attack on the most loathed traits of Russia's two most recent leaders: Mr Yeltsin's reputation for heavy drinking, and Mr Mikhail Gorbachev's anti-alcoholism campaign.

Asked by an elderly professor in Novosibirsk if recent television pictures showing him holding aloft a glass of vodka meant that "you, too, are an alcoholic," Mr Zyuganov answers: "Well, I must say that I drink considerably less than Mr Yeltsin, but a little bit more than Mr Gorbachev."

The use of the title "Mr", a foreign form of address in Russian and spoken by Mr Zyuganov with an ironic inflection, is part of the emphatic nationalism which has become the Communist leader's central theme on the campaign trail.

By describing Russia's current president as Mr Yeltsin, Mr Zyuganov is underscoring his assertion that the president "is a western agent... who has betrayed the interests of the country."

By contrast, Mr Zyuganov portrays himself as a committed Russian patriot, a point he emphasises much more than traditional Communist or even social-democratic economic policies. Whereas Mr Yeltsin is seeking to define the race as a contest between "democracy" and "communism", Mr Zyuganov told Novosibirsk voters: "Today, the choice is very simple: either you are for Russia and Russians, or you are against them."

And while he pays careful homage to the traditional Communist idols, laying a wreath at the Lenin statue in every city he visits, the symbols of Russian nationalism have an ever more prominent place in his campaign.

At an open-air rally in the centre of Novosibirsk, Mr Zyuganov spoke beneath

a huge banner reading "The Orthodox Church for Zyuganov" and two icons were held above his head. As a warm-up act, a woman in a traditional embroidered blouse sang Russian folk songs. In his standard campaign talk, Mr Zyuganov has even taken to boasting that he has been endorsed by Father Vladimir, the spiritual leader of the fervently nationalistic Cossack movement.

But despite Mr Zyuganov's best efforts to shift his party away from a no longer popular Communist ideology towards a new creed - at a Novosibirsk press conference he answered a very specific economic question with a digression about the red flag and the weakening of the Russian state - he has failed to engage the new generation.

The politician who prefers to describe himself as "the candidate from the national-patriotic coalition" met a warm reception in Siberia, but his supporters were almost entirely middle-aged. They are military men, professors, doctors, blue-collar workers, but almost all of them are members of Russia's lost generation, whose past way of life has been shattered but which is too old to begin anew.

"The support for Zyuganov will be great here, more than in European Russia. We have many people, blue-collar workers, people from the defence sector, who have lost their jobs and everything," said Mrs Svetlana Ivanova, a retired doctor and Communist party member in Krasnoyarsk. "But I don't think the young will support us. They have become carried away by business and such things."

Yet despite his visible failure in Siberia to attract the young voters analysts say he needs in order to win, Novosibirsk offered Mr Zyuganov one source of solace. In gubernatorial elections held in the region last December, a Communist candidate, who had been far behind the pro-Yeltsin incumbent in opinion polls, won a surprise victory. Mr Zyuganov is hoping that next week the nation will follow the Siberian example.

EUROPEAN NEWS DIGEST

Turkey awaits coalition's fall

Turkey's fragile conservative coalition looks set to crumble, after the True Path party of Mrs Tansu Ciller, the former prime minister, yesterday decided to vote against its coalition partner in a no-confidence motion expected on Saturday.

MPs from True Path voted unanimously to support the opposition Islamist Refah party in the crucial vote against prime minister Mesut Yilmaz of the Motherland party. The minority conservative coalition is not expected to survive beyond this weekend. The debate leading up to the vote begins today.

The decision came after Turkey's parliament voted to set up a committee to investigate the sources of the personal wealth of Mrs Ciller. Parliament had earlier agreed to set up two other committees to investigate allegations of corruption against Mrs Ciller. If parliament accepts the committee findings, she will be sent for trial and become ineligible to return to office in January. Under a power-sharing deal agreed in March, when the coalition was set up to keep the Islamists from power, Mr Yilmaz was scheduled to hand over the premiership to Mrs Ciller.

John Barham, Ankara

German telecoms reform agreed

The liberalisation of Germany's telecommunications market moved a significant step closer yesterday when the post and telecommunications committee of the Bundestag, the lower house of parliament, reached agreement on details of the legislation.

Three controversial issues were settled by the committee, which includes parliamentarians from both the government and opposition parties. They agreed: the federal states should have a say in the future regulation of the market; telephone users should be able to keep their existing phone numbers when switching to new suppliers after the market is liberalised on January 1 1998; and telecoms companies should be able to use public rights of way for cables without charge.

The post and telecommunications ministry said nothing now stood in the way of Bundestag approval of the bill, which will set the framework for operations by the soon-to-be partially privatised Deutsche Telekom and its potential private sector rivals.

Peter Norman, Bonn

Visa drops plans to ban rivals

Visa International, the credit card organisation, has dropped plans to prohibit its European member banks from issuing rival cards after a warning last week from Mr Karel Van Miert, European competition commissioner, that he could "not accept" such a move.

Mr Van Miert's comment followed complaints from card operators American Express, Diners Club and Deau Witter Discover that Visa, an association of 19,000 member banks, was planning to extend to Europe an internal rule prohibiting its US members from issuing other cards, apart from rival Mastercard. Amex is keen to start issuing its cards through banks. A board meeting of Visa International in Montreal, Canada, yesterday discussed intensifying competition in the card industry and gave power to its operating regions to impose similar rules to that in the US.

Neil Buckley, Brussels

Paris airport to be near Chartres

The French government yesterday chose a site 80km south-west of Paris for possible construction of the capital's third international airport. Ms Anne-Marie Idrac, the transport minister, said after a cabinet meeting the chosen location was at Beaulieu, near Chartres, as suggested by a transport ministry committee. "At this stage we are not talking about carrying out the project, which is a possibility, but about buying up the land," a government spokesman said. Other sites, north and north-west of the capital, were candidates for the airport, intended to relieve congestion at Orly, 10km south of Paris, and Roissy-Charles de Gaulle, north of the capital.

Reuter, Paris

Objection to Belgian bank deal

The European Commission has told three shareholders in Banque Bruxelles Lambert, Belgium's fourth-largest bank, that it cannot accept a joint control agreement signed last year.

Groupe Bruxelles Lambert, the holding company, Royale Belge, the insurance company, and Crédit Communal, the publicly owned Belgian bank, signed the agreement last August to pool their stakes, totalling 97.25 per cent, and to adopt a joint policy towards BBL.

But the staff of Mr Karel Van Miert, competition commissioner, have ruled the agreement might stifle competition. They have written to the three shareholders giving them one month to rewrite it.

Neil Buckley, Brussels

Lithuania open for foreign banks

The central bank of Lithuania said it hoped foreign banks would open branches in the country after parliament passed laws opening the market to overseas investment.

Foreign banks can now open branches, buy shares in new banks or in those already operating. Several foreign banks already have representative offices in Vilnius: Polish banks Polska Kasa Opieki and Kredyt Bank, and Russia's Kontakt Bank. Britain's Royal Bank of Scotland also has permission to open an office.

Reuter, Riga

ECONOMIC WATCH

Inflation edges down in Italy

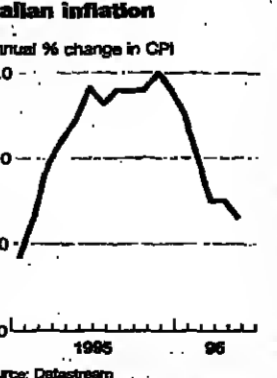
Italy's inflation rate declined marginally last month to give an annualised figure of 4.3 per cent against 4.5 per cent in both the previous two months. During May, consumer prices increased by 0.4 per cent compared to 0.6 per cent in April, according to Istat, the national statistics institute. The dip in consumer prices was in line with expectations but the level of inflation remains well above the European Union norm. The previous government projected that inflation would fall to 3.5 per cent by the end of the year.

But economists said yesterday that this was unlikely. The Bank of Italy has set a 4 per cent level as the benchmark for cutting interest rates, and last week Mr Antonio Fazio, its governor, insisted the government should aim for taking inflation below 3 per cent in 1997.

The poor April performance was explained by meat prices being forced up by consumers switching to white meats as a result of the BSE disease scare in beef. The figures also underlined the difference between inflation levels in the north and south of the country, with Venice's prices more than twice those of Palermo.

Robert Graham, Rome

Belgian unemployment fell to 13 per cent in May from 13.4 per cent a month earlier.



Grachev rebuked over navy vote

By John Thornhill

Russia's defence minister has sparked a furious political row in Moscow with a claim that sailors voting early for the June 16 presidential election had all backed President Boris Yeltsin.

Communist party officials immediately claimed that if General Pavel Grachev's comments were true, electoral law must have been breached - either commanding officers must have ordered their men to vote for Mr Yeltsin or the ballot boxes must have been opened prematurely.

The central electoral commission said it had found no evidence of malpractice, but chided Gen Grachev for making irresponsible statements.

The minister said he had based his observations on daily reports he received about the mood of military personnel.

Because of Russia's vast size, many votes in remote regions or on active military service have already begun to vote. Reindeer herders in the far north have voted in specially erected leather tents while submariners and oil workers in the far east have also cast their votes early.

Some of these voters may support candidates who will not appear on the final ballot paper, Mr Aman Tulayev, the Communist parliamentary speaker from the Kemerovo region, hinted yesterday he would pull out in favour of Mr Gennady Zyuganov.

Hangover headache for Italy's parliament

Some 90 decrees from previous legislatures must be tackled, writes Robert Graham

A backlog of legislation is threatening to paralyse Italy's new parliament. Without a cross-party agreement, the first year of the 13th legislature since the second world war will be occupied almost entirely with legislative issues inherited from previous parliaments.

At the heart of the problem is the increasing use of the decree, by which governments can put legislation into effect pending parliamentary approval. A decree takes effect as soon as it is published in the official gazette. Parliament has 60 days to convert it into law, after which it can be renewed or allowed to lapse.

The new parliament has inherited 92 decrees (68 from the last government, headed by Mr Lamberto Dini) some of which involve public spending - a total of some L40,000bn (€26bn) over three years.

In an unusually forthright letter, President Oscar Luigi Scalfaro has told parliament:

"By their sheer number, these 90 decrees usurp parliamentary prerogative, and through the practice of renewing those not converted into law, the constitutional principles of the balance of powers is permanently undermined."

Some decrees date back to the Amato government of 1992-93. The oldest, relating to the reorganisation of ports, has been renewed 21 times.

The resort to decrees is not a case of the executive trying to wrest power from the legislature. All political parties except it is a natural consequence of the difficulty of introducing new laws in a reasonable period of time.

Unlike other European democracies, Italy has a strict bicameral system with both houses of parliament enjoying similar powers. This means the normal path of a law involves a detailed committee examination in both houses as well as debate and draft changes on the floor. Amendments in

either house have to be accommodated with fresh readings.

The legislative process is so time-consuming that governments with slim majorities - the case since 1992 - have found it increasingly hard to resist using decrees, especially in contentious areas.

Controversial decrees tend to be those most renewed because parliament cannot agree on the precise terms on which they should be converted into law. This is the case with decrees regarding reorganisation of the Rai state broadcasting organisation (renewed 15 times) and amnesties for tax evaders and illegal building (12 times).

The last parliament was confronted with 735 decrees, of which 514 lapsed and 10 were rejected. The 122 converted into law accounted for more than a third of the laws passed in that parliament.

A cartoon in one of yesterday's daily newspapers mocked the inability of parliament to convert decrees into law by depicting a man on his deathbed attended by a priest. "I want to be converted," says the man. "Which decree are you?"

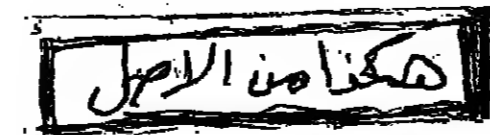
A meeting has been called of all the groups in parliament next week to try to tackle the problem. The aim of the centre-

left majority is to strike a deal with the rightwing opposition to settle the most urgent decrees at once. This would be followed by legislation to speed the legislative process.

The opposition is likely to tread warily because a decision to co-operate fully to resolve the backlog of decrees could be seen as a precedent for co-operating on other areas, most notably the budget.

The main pressure for an agreement may well come from a common desire to head off further referendums. These have become another tool to get round parliament's inability to legislate. Over the past decade, 53 issues have been put to a referendum; 35 since 1993. A further 28 are awaiting the go-ahead from the constitutional court.

Speaking before the constitutional court this week, President Scalfaro pointedly warned the "direct democracy" of the referendum should be the exception not the rule.



Banks chase debt deal for ex-Yugoslavs

By Kevin Done, East Europe Correspondent

Leaders of the London Club of commercial banks have launched an urgent attempt to win the agreement of the creditors of former Yugoslavia for a controversial phased debt deal with Bosnia-Herzegovina and Macedonia.

The banks are seeking backing for the first step of the deal by the beginning of next week in order to circumvent opposition from rump Yugoslavia - Serbia and Montenegro - which has already launched a legal action in London to try to block the banks' earlier deal with Slovenia.

The London Club of around 350 banks and financial institutions is seeking individual deals with each of the five states to have emerged from former Yugoslavia, which collapsed with debts to the commercial banks now totalling \$4.7bn, excluding interest.

The bulk of the debt, some \$4.4bn, is covered by the so-called New Financing Arrangement (NFA), which was agreed with the London Club in 1988 and was the last debt restructuring deal made by Belgrade before the break-up of the country in 1991.

Detailed debt negotiations have not yet begun with either Bosnia or Macedonia, but the leaders of the London Club have decided this week to press ahead with seeking creditors' approval for the release of both countries from the onerous "joint and several liability" clause in the NFA.

This clause effectively renders each of the successor states of former Yugoslavia liable for the entire \$4.4bn NFA debt.

Mr Mirsad Ekanovic, Bosnian finance minister and Mr Rasim Omicovic, governor of the central bank, met officials of Chase Manhattan of the US which chairs the international co-ordinating committee of the banks in Budapest yesterday.

The president of the international war crimes tribunal for former Yugoslavia has warned that the failure to arrest indicted war criminals will scupper elections throughout Bosnia planned for September, writes Laura Silber in Belgrade.

In an extract of a speech he intends to deliver in Florence next week as part of a review of the Bosnian peace process, Judge Antonio Cassese of Italy says: "Fair and free elections are said to be the key to a lasting peace in Bosnia and they will not be possible in an environment polluted by alleged war criminals."

The president of The Hague tribunal accuses the international community of issuing a "licence to kill for future tyrants" by allowing the accused to remain at large.

They said that once released from "joint and several liability" Bosnia was "committed to reach an agreement in principle with the ICC and to complete a transaction with a 'critical mass' of international creditors in 1997".

The banks have set certain key conditions. They wish to reach an agreement in principle with Macedonia by the end of October with a final debt exchange in March 1997. For Bosnia they are insisting on agreement in principle by the end of June 1997 and a closing by the end of next year.

Macedonia and Bosnia have made their move at the eleventh hour, as the realisation has dawned in both Skopje and Sarajevo that the banks' previous debt deals with Slovenia and Croatia could soon leave rump Yugoslavia holding a blocking minority of the debt.

The deal with Slovenia, which is taking on 18 per cent of the NFA debt, will be implemented next Tuesday, and the deal with Croatia, which is taking on 28.5 per cent of the debt, should be implemented in mid-July.

EU snubs Albania after flawed poll

By Marianna Sullivan in Tirana and Neil Hoodley in Brussels

European Union leaders have dropped plans to visit Tirana during a tour of south-eastern European cities later this week.

The European Commission said yesterday the planned visit to the Albanian capital by Mr Jacques Santer, European Commission president, and Mr Lamberto Dini, foreign minister of Italy, which holds the EU presidency, would be "inappropriate" while the country's electoral process was continuing.

The Commission also warned that any strengthening of the EU's commercial and economic co-operation agreement with Albania would depend on the "evolution of the political situation". Proposals for a new agreement would only be submitted in the light of the international observers' report on the elections.

Both the Commission and the EU presidency yesterday reiterated their demand for a re-run of voting in regions where there had been electoral irregularities. But they stopped short of backing the demands

of Albanian opposition leaders visiting Brussels for a fresh national election.

Leaders of the Socialist party, Social Democratic party, Democratic Alliance party and the Democratic Right Wing party told Mr Christos Papoutis, the Greek European commissioner, there had been "flagrant violations" of electoral law, and holding only partial elections would "legitimise the totalitarian regime of President [Sali] Berisha".

Diverse elements of the Albanian opposition have now joined forces in the days since the elections to draw international opinion to what they call Mr Berisha's "coup d'état".

But police and security forces have effectively countered demonstrations around the country this week, and there has been a heavy police presence in the capital since last week's violent clashes when several leading opposition figures were arrested.

The new hope presented by the prospect of dialogue with the EU has prompted the Socialists to call off a five-day hunger strike. Diplomats in Tirana believe there may be some degree of compromise,

with the government agreeing to a partial re-run of the polls, though there was no indication of the extent of such an exercise.

The Central Electoral Commission has so far called for re-runs in four constituencies. That was "clearly not enough for a compromise", said one Tirana diplomat.

"We are not going to accept any kind of compromise," Mr Neritan Ceka, the chairman of the Democratic Alliance said before leaving for Brussels. "We play the role of mediator between Albanian people and the European Parliament." The Socialists and Social Democrats agree, stating that their goal is a new round of elections, or a boycott of the future parliament.

The government continues to argue that the elections were fair and that any claims of irregularities would be decided internally.

"This is the proof of the stolen votes," said Ms Smailinda Meksi, a Socialist MP, flipping through a folder thick with reports of election day violence, manipulation and irregularities from her constituency in Tirana alone.



President Sali Berisha: accused of an electoral 'coup d'état'

Veba's stake in Bremen utilities opposed

By Judy Dempsey in Berlin

Germany's cartel office, anxious to open the energy sector to more competition, yesterday challenged the acquisition by Veba, the industrial conglomerate, of a 34.9 per cent stake in Bremen's public utility company.

But Veba, which last year bought the stake for DM350m (\$230m), said it would immediately appeal to the region's higher court of appeal.

The cartel office ruling comes as the city councils are partly privatising the Stadtwerke - their utility companies which distribute electricity, gas and water - to raise revenue to relieve budgetary pressures.

The decision to block Veba's stake is seen as a test case for mergers and acquisitions involving the utilities. Victory for the cartel authorities could stop Germany's nine main electricity companies from deepening their regional supply and distribution monopolies.

It could also lead to more competition and transparency, exposing links between companies which buy stakes in the public utilities and the regional energy monopolies.

Mr Kurt Markert, head of the energy department at the cartel office, said Veba's influence in Stadtwerk Bremen (SWB), Bremen's public utility company, would go beyond its 34.9 per cent stake - and beyond the Bremen region itself.

Veba has extensive links with the main energy suppliers in that part of northern Germany.

Most of north Germany's energy is supplied by Preussen-Elektra, the 100 per cent-owned electricity subsidiary of Veba. Veba has other indirect interests in the region through stakes held by PreussenElektra.

Veba shrugged off any suggestions it would have to pull out of SWB. "We are optimistic about the outcome of the court case," it said.

Nato seeks to bridge ambiguity gap

By Bruce Clark in Berlin

Seldom in Nato's 47-year history can a single, ambiguous slogan have been called on to bridge so many almost unbridgeable gaps between nations.

The slogan is "command structure reform" and it refers to Nato's plan to transform itself into a lighter and more flexible defence system, not geared to any particular threat but able to act quickly when dangers arise.

In simple terms, the 66 headquarters dotted across Nato's 16 members are to be replaced by a new arrangement that costs less and requires less armour.

At this week's ministerial meeting in Berlin, it became clear that the budget-driven reform will be used to overcome Franco-American differences over Nato's future, to assuage Russian fears about enlargement, and to impress would-be members.

The circle-squaring task assigned to Nato planners over the next few

months was laid out in a communiqué whose finer points were haggled over by French and American diplomats until dawn on Monday.

France successfully insisted that the main elements of a command structure reform should be settled over the next six months - though Nato officials caution that an "architectural model" of the alliance's future shape is the best that can be expected by December.

As part of their general overhaul, military experts have been told to identify "headquarter elements and command positions" that could be used for European-only operations.

Broadly, the US conceded that the potentially "European" parts of the alliance should be clearly identified. In return it won a promise that these forces would have a clear job description. But the translation of these ideas into practice will be a labyrinthine business.

Even without the US-French prob-

lem, the command structure change is complicated by the reluctance of nations that host Nato facilities to give them up.

Nato experts have sketched out two rough concepts for the reform, one involving a handful of regional commands, the other a "dense network" of smaller installations.

If efficiency were the criterion, the first idea would seem more promising - but would disappoint Nato's smaller members by leaving no facilities on their soil.

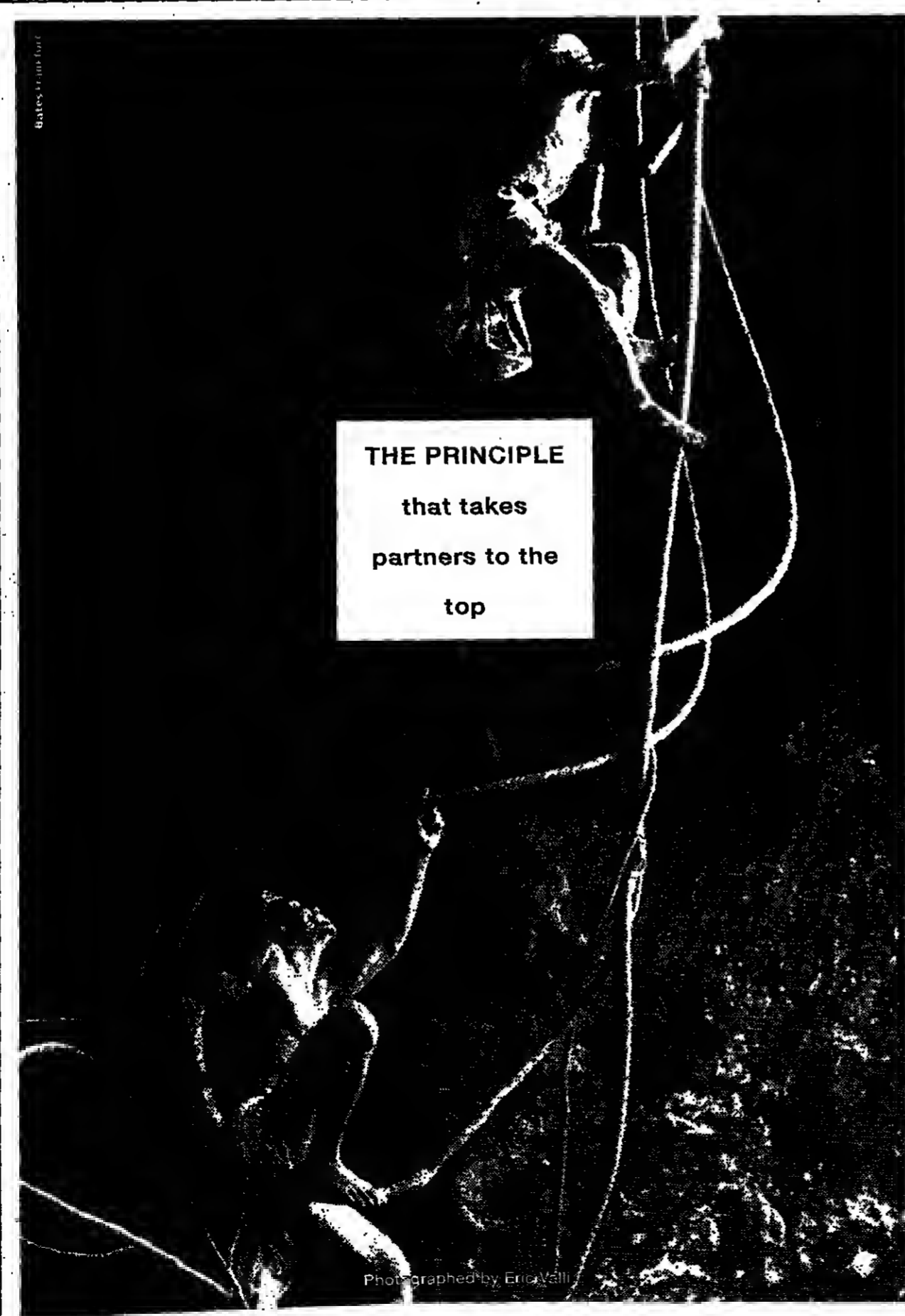
The planners will also have to bear in mind Russian demands that the alliance desist from transferring infrastructure eastwards - as well as the desire of candidate members for some credible indication that they could be defended.

Western diplomats see some scope for reassuring Moscow over the amount of Nato personnel and equipment that would be transferred to the

soil of new members. In optimistic moments, Nato officials believe the managing of the US-European relationship within Nato might go hand in hand with the process of reassuring Moscow.

At the heart of the revised transatlantic partnership agreed in Berlin is the proposal to establish mobile headquarters from which ad hoc missions known as Combined Joint Task Forces (CJTF) could be run. Once the CJTF concept is functioning, there would be less need to deploy permanent command structures eastwards: new members would feel more certain that they could be defended and Russia need not feel encircled by Nato bases.

Observers say Moscow's reaction to this argument will provide a clue to its real reasons for opposing enlargement: is it fear of having Nato armour on its doorstep, or is it simply the fact that its former satellites' integrity would be formally guaranteed?



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NEWS: THE AMERICAS

AMERICAN NEWS DIGEST

McDonnell Douglas strike

About 6,400 union employees at McDonnell Douglas went on strike early yesterday after contract negotiations with the aerospace company failed.

US Navy chief nomination

Admiral Jay Johnson has been chosen as the next chief of US naval operations, replacing Admiral Jeremy Boorda, who committed suicide last month.

More defence spending backed

A key US House committee yesterday approved an \$11bn increase in defence spending for next year, despite a White House veto threat.

Brazilian output rises in April

Output by Brazilian industry grew 2.6 per cent in April over March, the first positive result of the year, the National Statistics Institute said.

Citibank says it is not a target of Justice Department's Raúl Salinas investigation
US banks face money-laundering probe

By Richard Waters in New York

The US Justice Department has launched an inquiry into whether the US banking system was used to launder money by Mr Raúl Salinas, brother of former Mexican President Carlos Salinas.

Also, banks must satisfy themselves about the source of large amounts of money that they help shift across borders.

Mr Raúl Salinas is in jail in Mexico, charged in connection with the murder of Mr José Francisco Ruiz Massieu, a former leader of the ruling Institutional Revolutionary party (PRI).

Mr Salinas has specifically denied - to assertions that it was paid by people looking to buy favour with the once-powerful Salinas family.

The US Justice Department could only consider bringing money laundering charges if the money was found to have been made illegally, for instance in the drug trade.

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Voters unmoved by Whitewater

By Jurek Martin in Washington

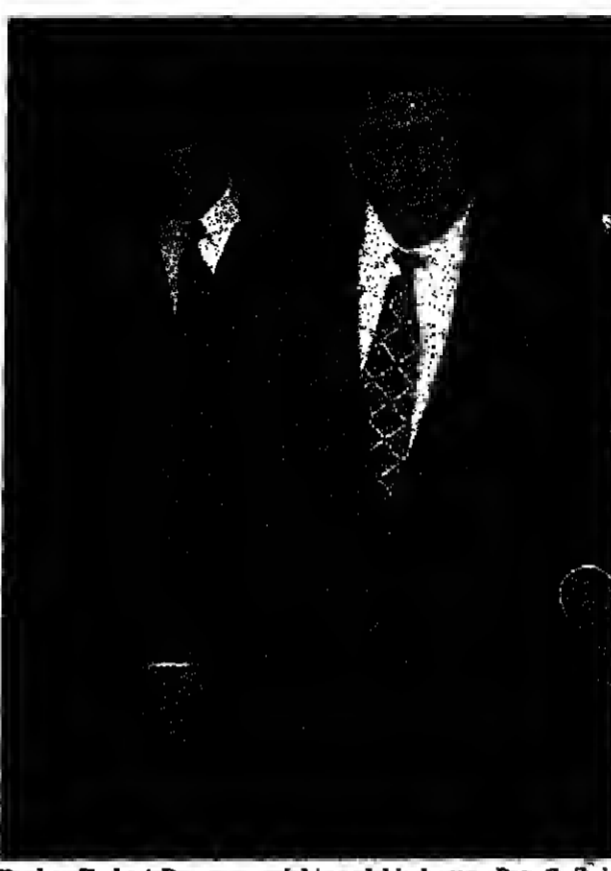
The Whitewater affair does not appear to be much eroding President Bill Clinton's solid lead over Senator Robert Dole in the race for the White House, according to a clutch of new public opinion polls.

The latest New York Times/CBS News survey, published yesterday and giving Mr Clinton a 54-35 per cent lead among registered voters, even represents a fractional improvement for the president over the previous poll.

The latest Newsweek survey found the lead unchanged at 17 points (49-32 per cent), with both men down 3 points each over the span of a month.

Both this week's polls were taken after Mr Clinton's former business partners in the Whitewater real estate venture and his successor as governor of Arkansas were found guilty on multiple counts of fraud.

Those verdicts appeared to give new life to the wide-ranging Whitewater investigations of Mr Kenneth Starr, the special counsel, and congressional committees, raising the prospect of further nasty surprises for the president before the November election.



Banker Herbert Branscum, right, and his lawyer Dan Guthrie leave court in Arkansas, after winning an order that President Clinton testify in Branscum's Whitewater-related trial.

The immunity from further prosecution Mr D'Amato seeks. Any appearance therefore may be in closed session.

Argentina to go on with N-plans

By David Pilling in Buenos Aires

Argentina is pressing ahead with the controversial privatisation of three nuclear power stations and the creation of a nuclear waste dump in spite of protests by opposition politicians and environmental groups.

The Peronist administration, which used its congressional majority to win authorisation of the sale in a joint committee of deputies on Tuesday night, wants to sell the plants as quickly as possible.

On offer will be two completed plants, the 335MW Atucha I, designed and built by Siemens of Germany in the 1970s, and the more modern 650MW Embalse plant built by Atomic Energy of Canada.

The unfinished Atucha II plant, 100km north of Buenos Aires, requires an estimated investment of \$600m-700m.

"The law contains serious contradictions and important dangers for the future," said Mr Juan Pablo Baylac, a Radical deputy. The Peronist party had pushed through draft legislation without proper discussion, an unforgivable tactic given the "strategic importance" of the issue, he said.

NEWS: INTERNATIONAL

INTERNATIONAL NEWS DIGEST

Action urged on risk management

Banks and securities firms should co-operate to pool data used for so-called "value at risk" computer models, says a report published yesterday.

Commissioned by the International Securities Market Association (ISMA), the eurobond market regulator and industry body, the report assesses the state of risk management practice in the wake of the collapse of Barings Bank last February.

It says that banks and firms are incurring substantial costs in making sure they have the market data needed for their value at risk (VaR) models are complete, consistent and reliable.

His statements were enough to convert initial panic among investors and businessmen into cautious wait-and-see. But, as with all his pronouncements, it is not clear what precisely Mr Netanyahu has in mind.

Thousands of Nigerians demonstrated yesterday in protest at the killing of the wife of the jailed presidential claimant Chief Moshood Abiola.

West faces pesticide disposal bill

The western world will have to foot the bill for disposing of up to 100,000 tonnes of highly toxic pesticides held in developing countries, the United Nations' Food and Agriculture Organisation warned yesterday.

City crime 'deters investors'

Mr Wally N'Dow, secretary general of the United Nations' Habitat II city summit, warned yesterday that many cities in the developing world were slipping into lawlessness, jeopardising their chances of attracting the investment needed to overcome poverty.

Business holding its breath for Netanyahu

Cabinet appointments will be the first clear signal of economic direction, writes Julian Ozanne

Mr Benjamin Netanyahu, Israel's prime minister, has his work cut out to calm investors and keep Israel's rapid economic growth on track.

In the immediate aftermath of his electoral victory last week he moved quickly to assure nervous financial markets. He promised to extend economic liberalisation, curb inflation and take measures to enhance foreign investment.

The next few weeks will be crucial. Mr Netanyahu inherits a growing economy but is beset by uncertainty.

His statements were enough to convert initial panic among investors and businessmen into cautious wait-and-see. But, as with all his pronouncements, it is not clear what precisely Mr Netanyahu has in mind.

S African TV group tunes into MPs' satellite needs

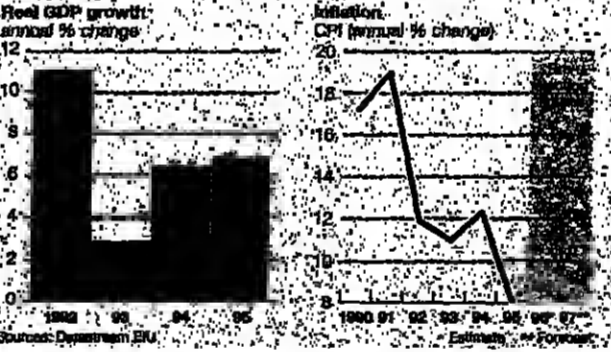
By Mark Ashurst in Johannesburg

A South African pay television company is to install free satellite receivers in the homes of the country's 490 MPs and senators before they draft regulations for the industry.

The company, Multichoice, will also waive subscription fees estimated at R1m (\$230,000) a year.

The move has been approved by parliament's ethics committee, although it conflicts with the position of the government-appointed Independent Broadcasting Authority which has refused similar offers from Multichoice.

Israel: Netanyahu's inheritance



The business community is unanimous that such an appointment would be disastrous, particularly on foreign investment, and has overwhelmingly signalled its preference for Mr Dan Meridor, a moderate Likud party insider.

The financial markets want Mr Netanyahu to re-appoint central bank governor Mr Jacob Frankel, admired for his tough monetary stance in the face of high inflation.

Equally critical are appointments to big spending ministries of housing and defence.

Murders lead Red Cross to halt Burundi operations

By Michela Wong

The International Committee for the Red Cross (ICRC) yesterday suspended all its operations in Burundi and other aid agencies cancelled trips outside Bujumbura following the murders of three Swiss ICRC employees in the north-west of the country.

The deaths mark a further escalation in Burundi's spiralling civil war, now estimated to be claiming 1,000 lives a month.

Non-governmental aid organisations will today meet to discuss implications for their operations. "Everyone is deeply shocked and stunned," said Mr John Myers, Oxfam's representative in Burundi.

The leaders of Jordan, Egypt and the Palestinians said yesterday they expected Israel's new prime minister to soften his hardline stance on peace once in office.

King Hussein of Jordan, Egypt's President Hosni Mubarak and Palestinian leader Yasser Arafat said meeting in the Jordanian Red Sea resort of Aqaba that the election of Mr Benjamin Netanyahu posed a challenge but the peace process was not in danger of collapse.

The high-tech economy - everything from software to telecommunications - has been a big part of recent growth and is insulated from the political geography," he said.

There is nonetheless a much more pessimistic scenario lurking in the wings: it is of an East-West domestic economic conflict with its neighbours.

"The nightmare is a return to the days of the 1982 invasion of Lebanon and then all bets are off," said a senior banker.

under the auspices of former Tanzanian president Julius Nyerere.

An ICRC spokesman in Nairobi said the aid agency, one of the few still running operations in Burundi's troubled provinces, was reassessing the security situation following the deaths of the three men, killed when unidentified gunmen on Tuesday opened fire on their four-wheel-drive vehicle.

Non-governmental aid organisations will today meet to discuss implications for their operations. "Everyone is deeply shocked and stunned," said Mr John Myers, Oxfam's representative in Burundi.

"No one can understand why this has happened to the best and most professional humanitarian agency."

The men, whose vehicle was clearly marked with the Red Cross emblem, had gone to Giteboke to discuss water distribution. Some 60,000 people in Giteboke, ruled off-limits by other agencies, rely on ICRC tankers for supplies of fresh water.

Handwritten Arabic text at the bottom of the page.

■ 'This was not a disaster, rather an incident' ■ Only short delay to second flight

Software blamed for rocket failure

By David Owen in Paris

Arianespace yesterday insisted that Ariane 5's first commercial flight could still go ahead in January as scheduled, and said a computer software problem was responsible for the failure of the rocket's maiden flight.

Mr Daniel Mugnier, launch operations director for the Centre National d'Etudes Spatiales, the French space agency, said preliminary data suggested computers had sent wrong information to the rocket shortly after take-off

causing it to change direction and break apart.

A commission set up to investigate the accident will report by mid-July. But officials indicated the problem was not as bad as might have been feared.

"We could have feared an incident on the propulsion system, but that does not appear to have been the case," said Mr Yves Le Gall, a French space agency official. "We are rather confident, as an electronic system is not the propulsion system and does not need costly tests."

He added: "This is not a disaster, but rather an incident. It will not delay the second mission for a long time."

This second mission, originally scheduled for September, will, like the first flight, carry a non-commercial payload. Thereafter, Arianespace - the France-based organisation that has more than 50 per cent of the world market for commercial satellite launches - plans to operate the new rocket alongside its successful predecessor, the Ariane 4, for a transition period of three years.

Arianespace yesterday insisted that its plans to launch 18 satellites in 1997 would not be affected even if the Ariane 5 was not ready as soon as expected.

"The objectives of Ariane 5 are still the same," said Mr Charles Bigot, Arianespace's chairman, underlining that the company's commercial launch plans for 1996 were not affected by Tuesday's explosion since only Ariane 4 flights were scheduled.

Senior French politicians, including President Jacques Chirac, meanwhile voiced their

continued support for the Ariane programme.

"I am at their side, sharing their disappointment today, just as tomorrow I will share their pride when Ariane 5 is completely ready," Mr Chirac said.

The French Space Agency's Mr Le Gall said the accident would not result in Europe pulling out of space. "Europe cannot abandon the conquest of space," he said. "We will continue developing the rockets that we need to launch big communications satellites... we will forge ahead."

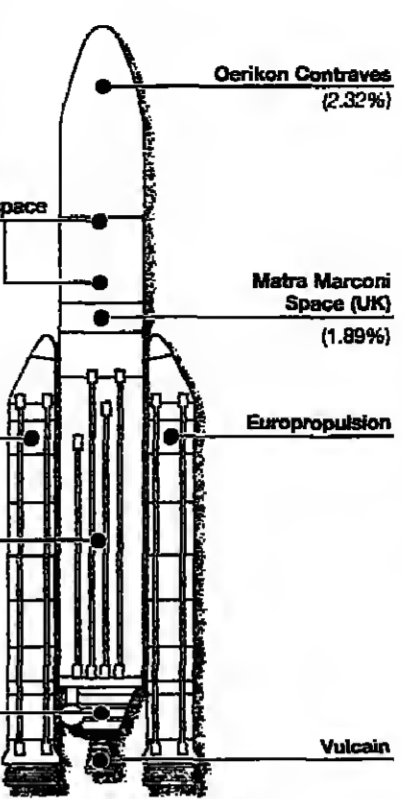
Ariane 5
Main contractors (Shareholdings)
Aérospatiale
Industrial architect

Daimler-Benz Aerospace (7.58%)

Aérospatiale (7.77%)

Société d'Européenne de Propulsion (7.77%)

Source: Arianespace



Incorporated in 1960, Arianespace has 53 European shareholders, most of them aerospace manufacturers and engineering companies. Some of the shareholders help build the Ariane rockets. The Ariane 5 design is a radical departure from previous Ariane series rockets with its single central cryogenic motor burning liquid hydrogen and liquid oxygen and two large solid-fuel strap-on boosters. Ariane 5 was designed to maintain western Europe's lead in launching heavy satellites and can launch satellites of 6.8 tonnes and double satellite payloads totalling 5.9 tonnes. Work is under way to increase the rocket's launch capacity by more than a tonne by 2002.

Insurers may raise premiums

By Ralph Atkins, Insurance Correspondent

The Ariane 5 rocket failure caused reverberations in the international insurance market yesterday, even though it was not insured and the loss will be borne by the European Space Agency. After Tuesday's disaster underwriters are likely to take a more careful approach to commercial launches anywhere and insurance premiums may rise.

The European programme has a relatively good reputation among satellite underwriters. "If they have got it wrong, we're going to be that much more cautious," said Mr Simon Clapham, underwriter at Marham Space Consortium at Lloyd's of London. On the other hand, the Ariane 5 failure might persuade backers of future launches to take out more insurance.

A wider issue for the insurance industry is the huge payload of the Ariane 5. It can carry cargoes with a total insured value of around \$500m and as the total capacity of the space insurance market is estimated at around \$600m, most spare insurers would have to take part in programmes for a commercial launch.

Arianespace confident of fending off rivals

By John Thornhill and David Owen in Paris

The disastrous test launch of the new Ariane 5 will cause an inevitable delay in the European Space Agency programme, but does not necessarily mean that Arianespace will lose its dominance in the fifth-year launch market. Arianespace can fall back on the excellent launch record of the more conventional Ariane 4 rocket on which it has built

its success while the Ariane 5 programme is salvaged and rescheduled.

Arianespace has launched 86 Ariane rockets since 1983, of which 88 have been on Ariane 4 rockets. On June 14, Ariane-space is to launch an Intelsat satellite on an Ariane 4, and one or two launches every month are scheduled for the rest of the year.

However, the Ariane 4 will be obsolete within 10 years as payloads get heavier and any

delays in the Ariane 5 programme will give a host of competitors an opportunity to advance their share of commercial satellite launches.

The number of global launches a year is expected to stay at around 30 until the year 2000, according to market forecasts. Jostling with Arianespace for a share of this market are US, Russian, Chinese, Japanese and Indian launchers which may reap some benefits from the delays in the Ariane 5

programme. Earlier this year, AsiaSat, the Hong Kong-based satellite consortium, opted for a Russian Proton rocket to launch its AsiaSat 3, after a new-generation Chinese Long March rocket blew up. The move, motivated by the availability of launch slots, marked the first time that AsiaSat did not use a Chinese rocket. Arianespace's competitors have also had their fair share of setbacks. Two of China's Long March launchers have

been destroyed on the launch pad and another exploded 20 seconds after launch in February. The Russian satellite launch programme has been experiencing problems of its own. Last month a Soyuz-2 rocket carrying a military satellite exploded minutes after launch. Two months earlier, a modified SS-25 rocket also exploded on take-off destroying three communications satellites from Russia, Israel, and Mexico.

Beijing reacts to US drive on piracy

By Tony Walker in Beijing

Mr Lee Sands, the US assistant trade representative, arrived in Beijing yesterday for talks aimed at averting US sanctions over Chinese abuses of intellectual property rights.

Mr Sands' arrival in China coincided with Beijing's announcement it had launched a fresh crackdown on pirate producers of such items as compact discs and computer software.

The US has threatened to impose punitive tariffs on \$2bn worth of Chinese imports if it does not uphold a February 1995 agreement to counter piracy. Beijing has said it will retaliate with "tit-for-tat" sanctions on American products.

The official Xinhua newsagency said a drive to eradicate copyright piracy was being linked to the "Strike Hard" campaign against crime.

Enforcement efforts were being concentrated in southern Guangdong province in southern China, where counterfeiting is rife.

"The focus for the remaining seven months of the year will be a crackdown on pirated goods and copyright theft in the audio-visual field, as well as the manufacture and sale of pornographic material," Xinhua said.

The news agency also said companies operating compact disc and CD-Rom businesses must re-register their activities before July 31, and a nationwide investigation of the electronic publication market would be launched soon.

US officials refused public comment on Mr Sands' discussions but privately they are cautiously optimistic that agreement can be reached on implementing the 12-month-old agreement to counter piracy. The US has presented China with a "road map" outlining steps required to avoid a trade war, including the closure of factories engaged in the counterfeiting.

Washington is also demanding that China tighten customs procedures against the export of pirate items such as CDs, CD-Roms, and video cassettes, which are pouring into Hong Kong and other Asian centres.

Washington has given China until June 17 to comply with the agreement. In past trade disputes the two sides have achieved compromise at the last moment, and this year appears to be following a familiar pattern.

But US businessmen and trade officials fear that testy Sino-US relations over such issues as Taiwan, human rights and arms proliferation will complicate matters.

Mr Mickey Kantor, the US commerce secretary, said in a speech on Tuesday the US was looking for China to take decisive action against copyright theft.

"We want clear, decisive, concrete action on the part of China to implement this intellectual property rights agreement," Mr Kantor told the National Press Club.

"It is not only in the interests of the United States, it is in the interests of the rest of the world and in the interests of China."

Indonesia tries to mollify car critics

By Manuela Saragosa in Jakarta

The Indonesian government has watered down its national car programme following fierce criticism from foreign vehicle manufacturers.

The controversial national car programme exempts Timor Putra Nasional, a company owned by President Suharto's youngest son, from import duties and luxury sales tax to develop a "national" car - christened the Timor - in co-operation with South Korea's Kia Motors.

Now, a new regulation will remove luxury sales taxes - averaging about 20 per cent - from commercial vehicles and cars of 1,600cc or less provided local content is at least 60 per cent.

The move is viewed as an attempt to defuse the criticism, particularly from the Japanese, who dominate Indonesia's car market. Tokyo said last month the national car policy breached Indonesia's commitments under the World Trade Organisation.

"It's a face-saving measure. What they're doing is back-tracking gracefully," said a Jakarta-based analyst.

No vehicles manufactured in Indonesia meet the 60 per cent local content requirement. However, Astra International, Indonesia's largest manufacturer, which works with a number of Japanese manufacturers, produces vehicles with more than 40 per cent local content and expects to meet the 60 per cent requirement within a few years.

Astra manufactures Indonesia's most popular vehicle, the Kijang, in a joint venture with Japan's Toyota, and the van has 51 per cent local content.

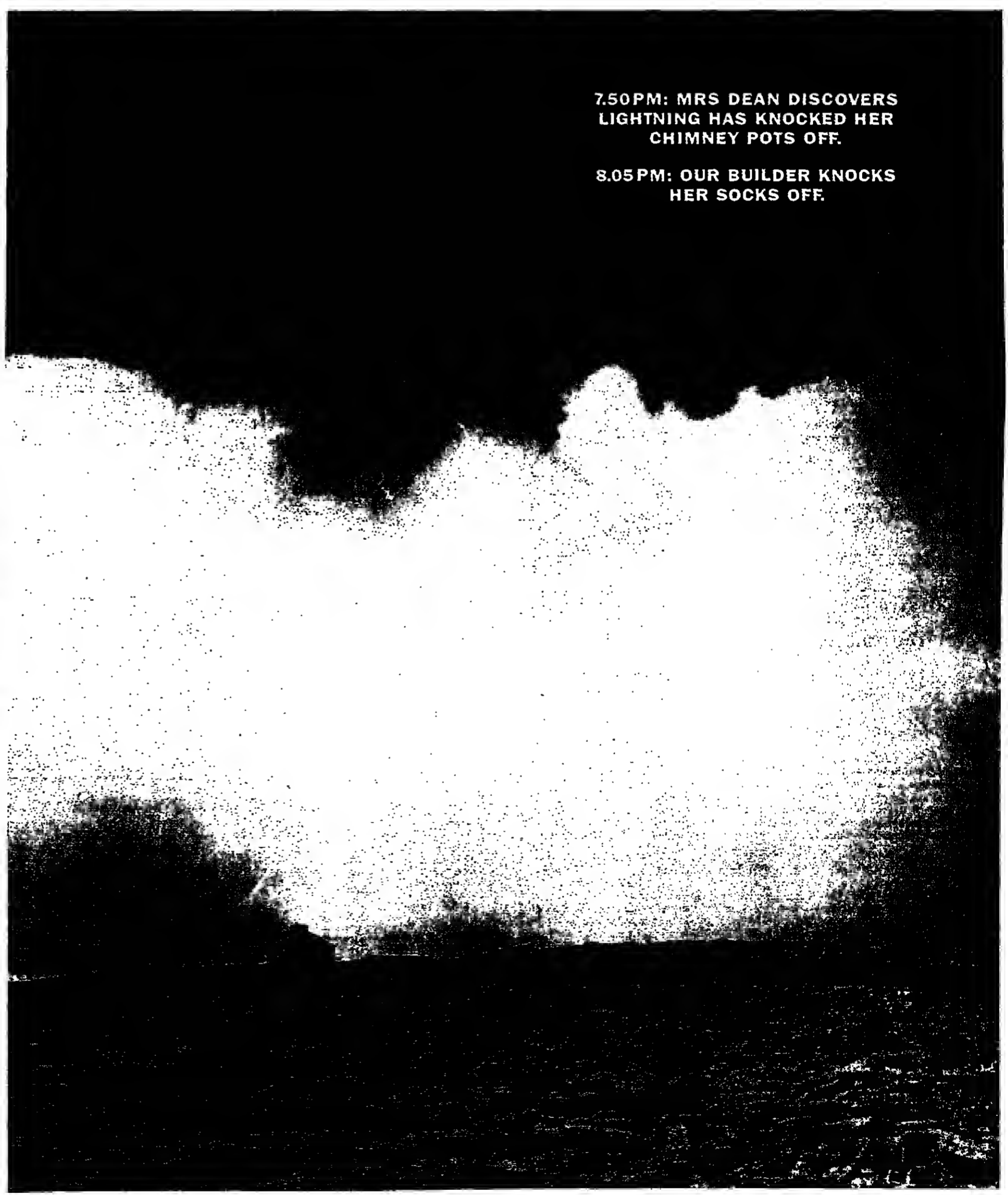
Analysts estimate the Kijang will increase its local content to 60 per cent within three years. Under the national car policy, the Timor must have 60 per cent local content in its third year of production to continue to qualify for tax and import duty breaks.

That will allow the Kijang to compete eventually with the Timor on an equal basis. The Kijang is already exempted from import duties on components because it meets a 40 per cent local content requirement.

Another amendment to the national car programme will allow the Timor to be produced in South Korea in the first year because Timor Putra Nasional has not found any assembly plants in Indonesia to do the job.

Mr Tunku Ariwibowo, the minister for trade and industry, said Indonesian workers would be sent to South Korea to manufacture the Timor - modelled on Kia Motor's Sefia - and that Timor Putra Nasional would be allowed to import up to 45,000 complete cars from South Korea tax-free for the Indonesian market this year.

Indonesia has unveiled a fresh deregulation package which eliminates import surcharges on a range of products and refines the tariff reduction schedule announced last year in compliance with its commitments to free trade agreements.



7.50 PM: MRS DEAN DISCOVERS LIGHTNING HAS KNOCKED HER CHIMNEY POTS OFF.

8.05 PM: OUR BUILDER KNOCKS HER SOCKS OFF.

Who says lightning never strikes the same place twice? Earlier last year a builder retained by Guardian Direct performed a spirited impression of grease lightning when he arrived at a cottage, which had been damaged in a thunderstorm, only fifteen minutes after the incident was reported.

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NEWS: ASIA-PACIFIC

Another week, another financial failure...

Who in Japan picks up the bill for the collapses is the question that really matters, says Gerard Baker

Another week, another financial collapse for Japan's tormented authorities to deal with. The failure on Monday of Shin Kyoto Shintan, a finance house crippled with debts of around ¥360bn (\$3.2bn), came as an inconvenient reminder of the continuing fragility of the banking system.

It was the seventh biggest bankruptcy in Japan since the second world war and added another loop to the Gordian knot in the centre of that system.

The timing was excellent, though, from at least one perspective. It concentrated attention on the imminent climax to the government's protracted efforts at financial reform. Also, it pointed up the limited nature of those much-vaunted remedial efforts.

Later this week, the Japanese parliament will be asked to vote on a series of bills put forward by the government. Prompted by near-panic at the chaos of the past year, they are

intended mainly to lay the foundations for a sounder financial system in future.

The measures that parliament has spent the last month considering are essentially fourfold. The three least controversial elements are:

- The establishment of a new vehicle for disposing of bankrupt institutions, modelled loosely on the lines of the US Resolution Trust Corporation;
- A revamping and refinancing of the under-funded deposit insurance system;
- The setting up of an early-warning device to nip future failures in the bud.

The fourth element, not strictly up for debate, but still uncertain, is the now notorious plan to spend ¥686bn on liquidation of the country's bankrupt housing loan companies.

The reforms are an elaborate quid pro quo. In exchange for being allowed to spend the taxpayers' money, the government is promising lawmakers it will clean up the financial system. But very little evi-

dence exists that the measures proposed will resolve the crisis. The three institutional changes have been widely and properly praised by international observers as a helpful means of addressing some of the longer-term problems that will arise.

The establishment of a so-called resolution trust corporation, a cumbersome structure intended to put in place a reasonably consistent formula for dealing with future bank collapses, is a necessary precondition of an orderly disposal of the debris of financial collapse.

The plan to raise deposit insurance premiums is also an essential measure, for too long Japanese banks have paid very small amounts towards the

cost of protecting their depositors - less than a 20th of that paid by some US banks, for example.

The early warning system, which will improve some aspects of supervision, may also be effective in limiting the shock of future banking collapses. But the measures do not even address the much

and agricultural co-operatives. Many more credit associations are set to go bankrupt. According to the finance ministry, the sector as a whole still has over ¥2,000bn in bad loans - 12 per cent of total loans.

Ministry officials have already acknowledged that their proposed reforms will not resolve this coming crunch.

The non-banks are an even bigger headache. For these, the financial changes have little to offer. No one knows precisely the amount of bad loans they hold, but educated guesses put the figure as high as ¥15,000bn.

The agricultural banks - which, in a chilling reminder of the inter-related nature of these things, have also lent more than ¥7,700bn to the non-banks - are another whole category of troubled institutions.

They may have as much as ¥12,000bn in total non-performing loans. Again, nothing in the government's immediate plans will do much to ease this appalling crisis.

In all, therefore, the further

Further losses could add up to as much as ¥30,000bn on top of almost ¥20,000bn written off by banks

larger immediate problems. While the bigger banks have been gradually improving the quality of their balance sheets in the past year or two, the asset-quality problems at thousands of smaller institutions have been getting worse.

Three distinct groups are most vulnerable: credit associations, four of which have failed in the past 18 months, non-banks, such as Shin Kyoto,

ASIA-PACIFIC NEWS DIGEST

OECD pressure on South Korea

The OECD yesterday criticised South Korea's economic policy only weeks before it must determine whether to accept Seoul as a member of the club of advanced industrial nations. The report, by its economic and development review committee, said Korea must liberalise its financial markets further and reduce government intervention in the economy if it is to maintain its record of strong economic growth.

But the report said long-term prospects were good; the economy could grow 7.8 per cent over the next few years, producing an economy comparable in size to Spain and Canada, with a doubling of per capita income by 2001. Korea had made progress in financial liberalisation since 1993, but domestic deregulation had proceeded faster than relaxation of controls on cross-border capital transactions.

This had prevented its financial markets becoming fully developed. Korea should concentrate on abolishing low-interest subsidised loans for industry and remove barriers between banks and non-bank financial institutions to strengthen the banking sector. Recent efforts to cut South Korea's high interest rates would boost investment and income, but carried risk of higher inflation. *John Burton, Seoul*

Seoul opposition boycott

South Korean opposition parties yesterday boycotted the opening of the National Assembly in protest against the government's recent recruitment of independent MPs to gain a parliamentary majority. The ruling New Korea party narrowly lost parliamentary control in general elections in April but subsequently regained a majority by recruiting 12 MPs to give it 151 seats in the 299-member National Assembly.

The two main opposition parties accused the government of creating an "artificial" majority through its post-election tactics and refused to elect a speaker of the National Assembly, which prevented parliament from assuming its normal duties. *John Burton*

Philippine inflation falls

Philippine inflation fell for the second consecutive month in May, from 11.3 per cent to 10.4 per cent, and is expected to drop below double digits in June. The slower pace of price rises in the housing, food and beverages and building sectors, which together make up the bulk of the consumer price index, accounted for the sharp drop in May.

Government economists who last year failed to predict the jump in inflation from 5.4 to 11.8 per cent in October owing to the doubling of rice prices, say inflation will hit 6 per cent by December while the average for the year would be within International Monetary Fund targets of 7.5-8.5 per cent. The stock market reacted positively to yesterday's figures, closing 24 points, or almost 1 per cent, higher at 1,239 and about 100 points below its all-time high. *Edward Luce, Manila*

Cook Islands faces bankruptcy

The Cook Islands, the small South Pacific island nation, faces bankruptcy unless urgent aid is given, as its population of 20,000 try to service a national debt of over \$100m, a meeting of prospective donor nations was told this week.

The crisis meeting was held in Fiji, after the Cook Islands defaulted on debts to the Pacific state of Nauru and rescheduled loans from the Asian Development Bank. The islands had earlier stopped loan payments to Italy, which had backed the building of a hotel said to be responsible for much of the debt, after disputes over costs.

The Cook Islands is willing to implement economic reforms in exchange for aid. Officials said their government needed \$19m, including \$7.5m to lay off about two-thirds of the government's 3,000 employees. Yesterday, the ADB announced the government was willing to reduce its departments from 52 to 22, improve its accounting measures and allow greater overseas investment. Some state-owned assets will be sold. The donor nations, including Japan, New Zealand, France, the US and China, agreed to give the islands 12 months to reform. *Richard Adams, London*

US businessman held in China

A US businessman, Mr William Chen, has been detained in Shanghai for allegedly importing prohibited goods into China, but officials have refused to specify the precise nature of the charge, a US consulate spokesman said yesterday.

Xinhua news agency reported the detention in a brief dispatch, saying Mr Chen had been picked up on Monday by public security bureau (PSB) personnel after he had "escaped the supervision of Chinese customs".

Mr Chen, a Chinese-American, was detained "under strong suspicion of importing to China goods which the People's Republic of China strictly prohibits," the agency said. The spokesman said a consulate official had a "fairly short meeting" with Shanghai public security officials yesterday.

Shanghai PSB officials declined to confirm the detention. Yesterday's announcement came a day after a US grand jury indicted 14 people and a Chinese-owned corporation on 30 charges of smuggling AK-47 assault rifles into the US from China. *AFP, Beijing*

Taiwan premier's reappointment irks opposition

Taiwan's newly elected President Lee Teng-hui yesterday moved to reappoint his premier, Mr Lien Chan, despite criticism by opposition parties. They charge that retaining Mr Lien as premier violates the country's constitution, as he is also vice-president and this concentrates power in the hands of the president.

There is also debate on whether his appointment must be confirmed by the Legislative Yuan, or national legislature. Mr Wu Peh-hsiung, presidential chief of staff, argued this was unnecessary, but opposition lawmakers asserted parliament had the right to screen cabinet appointments.

"Since this is not another nomination of a premier, of course it does not involve asking the Legislative Yuan to exercise its endorsement," Mr Wu said. He cited two precedents in which premiers were retained without parliament's approval after having been elected vice-president.

Critics argued that such things should not be tolerated under democracy. "In this new age, we should change to new things, not continue with old ones," said Mr Chang Chun-hung, acting chairman of the main opposition Democratic Progressive party.

Mr Wu, a popular politician who was one of several figures tipped for premier, said without elaborating: "We hope the public can understand the current situation". Mr Lien and the other members of the Executive Yuan formally submitted their resignations before the May 20 inauguration of the country's first democratically elected president and his running mate.

Taiwan's national legislature yesterday passed a government budget of T\$1,196bn (\$43bn) for the financial year ending June 30 1997, a spending rise of 5.4 per cent from a year earlier but below the 8.3 per cent increase sought by the government. Reuter reports.

The defence budget was pared to T\$254.1bn, 21.3 per cent of total spending, from T\$261.1bn the previous financial year. The government's proposed budget had called for a 3.8 per cent rise in military spending. The government can draw on an extra-budgetary defence fund of T\$166.2bn to pay for purchases of fighter jets and other equipment.

The budget was approved earlier yesterday after a May 31 deadline had been extended. The budget review process was spread over two months marked by disputes and back-room bargaining among parties.

Manila tax drive suffers setback

The Philippines' campaign to clamp down on alleged tax evasion was dealt a heavy blow yesterday when the Supreme Court dismissed a government appeal which would have paved the way for the biggest tax prosecution in the country's history.

The ruling by a division of the supreme court is a setback for the government's wider tax reform efforts. The bench threw the case out on a technicality by 3-2.

Mr Lucio Tan, chairman of Philippine Airlines, whom the government alleges evaded 25.6m pesos (\$977m) in taxes between 1990 and 1992, insisted his legal rights had been violated when state lawyers failed to give him the statutory 30 days' notice before launching their investigation into his business affairs in 1992. Mr Tan denies the allegations. The ruling casts legal doubt on the validity of more than 100 other tax cases at present before the courts.

Most of the cases, including two against members of the family of the late President Ferdinand Marcos, could be thrown out on the same 30 days' rule. The government will now attempt to appeal to the full bench of the Philippines supreme court. The ruling follows an extraordinary

moves by the divisional court on Tuesday when it issued a statement denying anonymous allegations in a "poison pen" letter that it had been "lavishly bribed" by Mr Tan to vote in his favour.

The ruling also brings into question the government's attempt to push its set-piece tax reform bill through congress.

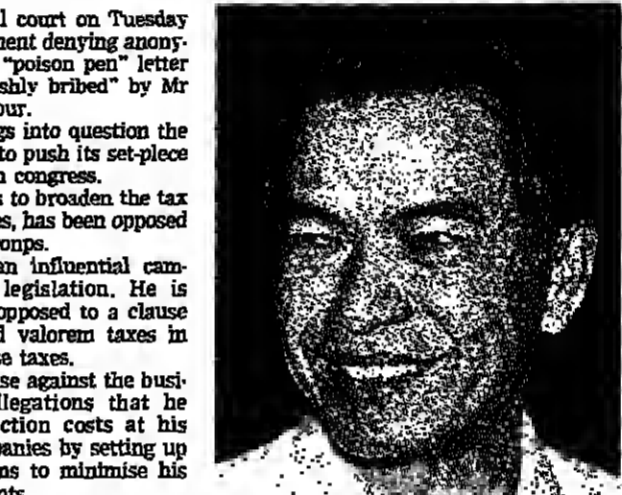
The bill, which seeks to broaden the tax base and lower tax rates, has been opposed by various business groups.

Mr Tan has been an influential campaigner against the legislation. He is widely thought to be opposed to a clause which would scrap ad valorem taxes in favour of specific excise taxes.

The government's case against the businessman rests on allegations that he under-declared production costs at his tobacco and beer companies by setting up "ghost" marketing arms to minimise his ad valorem tax payments.

The House of Representatives, which has already diluted elements of the bill and has argued in favour of retaining a modified ad valorem tax, is thought unlikely to enact the bill in the form submitted by the government.

The government estimates that \$7bn pesos is evaded in taxes yearly. The original tax bill would enable it to generate



Lucio Tan denied the allegations and insisted his legal rights had been violated recurring fiscal surpluses, it says. Ministers yesterday expressed dismay at the wider implications of the supreme court ruling. "We want to take away the taxation system that favours some over others," said one.

CONTRACTS & TENDERS

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

LESOTHO HIGHLANDS WATER PROJECT - PHASE IB

CONTACT LHDA 2008

MATSOKU TUNNEL AND WEIR

INVITATION TO PREQUALIFY

The Lesotho Highlands Development Authority (LHDA), a parastatal body constituted under the Ministry of Natural Resources of the Government of Lesotho, is responsible for the implementation, operation and maintenance of the Lesotho Highlands Water Project (LHWP) within the boundaries of the Kingdom of Lesotho (KOL). The LHWP is a bi-national project between the KOL and the Republic of South Africa (RSA) and its purpose is to divert surplus water from the KOL to the industrial heartland of the RSA. The LHDA hereby invites prospective tenders to apply for prequalification to tender for Contact LHDA 2008, Matsoku Tunnel and Weir, as part of the Phase IB development.

The Works will comprise approximately 5.7 km of concrete lined tunnel, tunnel inlet and outlet works, a diversion weir, a 5km long gravel access road and other associated works. The weir will be approximately 10 m high and 180 m long and will be a mass gravity structure constructed either of mass concrete or of uncut grouted stone masonry. The tunnel will be of modified horseshoe cross-section with an excavated span of approximately 4.0 m with concrete lining thickness nominally 300 mm. The route of the tunnel is through basalt of the Lesotho Formation occasionally intersected by dolerite dykes. It is specified that the excavation be performed by drill and blast methods and it is anticipated that excavation will proceed from two headings.

The estimated value of the Works in Lesotho Maloti is M130 million (US \$ 30 million). Competitive export credit financing will be sought for foreign sourced supplies and services, and commercial financing for the remainder.

Construction is programmed to commence during the last quarter of 1997 and the Works are to be commissioned for the delivery of water by 01 January 2001.

Prequalification documents will be available from 28 June 1996. Applications for prequalification documents, clearly stating organisation, person responsible and title, address and contact facsimile and telephone numbers should be made in writing to the Consulting Engineers at the following address:

The Project Manager
Matsoku Diversion Partnerships
Private Bag A-476
MASERU 100
Lesotho

Attention: Mr R. Blackhurst

Fax: +266 310347
Telephone: +266 313111 Ext 250

The closing date for the receipt of completed Prequalification Documents at the offices of the Lesotho Highlands Development Authority will be 5 August 1996.

Logging row hits Cambodia loan

The International Monetary Fund has delayed a scheduled \$20m loan disbursement to Cambodia after expressing concern over lack of transparency in the sale of state assets, particularly logs.

Mr Michel Camdessus, IMF managing director, has warned the country's two prime ministers that, if the government does not act to increase transparency, the Fund's three-year aid programme could also be discontinued.

The temporary freeze comes ahead of an international donors' meeting next month in Tokyo, where the Cambodian government will ask for another \$1bn in assistance. Without endorsement of its management of the economy from the IMF, the government is likely to encounter severe resistance from donors. Cambodia has already received nearly \$3m since a 1991 UN-sponsored peace accord.

IMF concerns about the destination of receipts from logging have increased after it was alleged agreement had been reached with the Thai government to export 1m cubic

metres of already-felled logs of timber via Thai logging companies.

The agreement was said to have been reached without the knowledge of the Cambodian national assembly and in contradiction of a government ban on the export of whole logs.

A large proportion of the logs are said to have originated from Cambodian territory controlled by the Khmer Rouge, which stands to receive a percentage of the proceeds, and according to the environmental group Global Witness which has obtained documents detailing the deals.

"We are trying to get the government to articulate a forestry and logging policy," said Mr Joshua Charap, IMF resident representative in Phnom Penh. "We have never seen an

articulation of what this (logging deal) implies for the treasury or the national budget."

The IMF wants a "set of measures" implemented, not just explanations, said Mr Charap.

The value of the timber allegedly to be exported is \$50m-\$100m. Cambodia's reported 1996 budget revenue, which does not include contributions from these logging sources, is about \$20m. Cambodian officials claim the deals were only "in principle" and have not yet gone into effect. They argue that the logs would not if not milled immediately.

They say the only way to ensure the government receives logs revenue is to deal with the Khmer Rouge which would sell the logs to Thai companies with or without government approval.

Soldiers take the lead in Laos economy

The future of the Lao economy can be seen from the hundreds of logging trucks passing by a new customs checkpoint in the heart of the forest near Lak Sao, a boom town along the main road between Thailand and Vietnam. Lak Sao is the headquarters of the Mountainous Area Development Company, or BPKP, and the lavish way station, which the company built at a cost of more than \$500,000, is a crucial piece of infrastructure the financially strapped Lao government simply could not afford.

Given responsibility for development in central Laos, BPKP does other things for the government. Presided over by the French-trained Major General Cheng Sayyavong, it is logging, sometimes by helicopter, hundreds of square kilometres of lush forest in an area expected to be drowned by a massive hydro-electric project.

Through its 22 different business units, BPKP also operates wholly owned and joint-venture operations in tourism, construction and trading and has government contracts to build six roads in the capital of Vientiane. The company was recently given control of the state-owned Lao Mining Service Company, responsible for overseeing mining operations in this mineral-rich country.

While BPKP works under a direct mandate from Mr Khamtay Siphadone, the prime minister, the company is controlled by the Lao military, of which Mr Khamtay is a former commander-in-chief. With a

Ted Bardacke on military men making things work

Laos: the business of the military

Year	Real GDP growth (annual % change)
1989	12.5
1990	6.5
1991	6.0
1992	7.5
1993	8.5
1994	9.5
1995	10.5

Source: ADB

turnover last year that diplomats estimate between \$100m and \$150m, it accounted for about 10 per cent of the country's entire gross domestic product and is a symbol of how Lao economic development is increasingly being dominated by the country's armed forces.

The formula is not new. All of Laos's neighbours - China, Vietnam, Cambodia, Thailand and Burma - have at times banded their militaries huge economic responsibilities.

But the Lao case is striking because it stems from the belief that the military is the only institution competent enough to manage a bungled economic reform process and coincides with the virtual takeover of the state by the military at the Communist party's congress recently.

"The feeling is that where you have military men in charge things work," says a Lao journalist. "Gen Cheng's success is one of the reasons for that feeling."

But critics charge that by turning over such huge responsibilities to BPKP, lines of authority and accountability are dangerously blurred. In the area granted to BPKP, where it is used to run a prison camp and has cited security objectives as one of the justifications for its work, officials from provincial governments, the forestry department and the government's own environmental watchdog agency complain they have no control over and little information about BPKP's activities.

Yet the government is already attempting to replicate BPKP's successes by creating two more military-controlled companies to take charge of development in other areas. A company called Daif looks after the south, while the Agriculture and Forestry Development Import-Export Company controls the remote northern region. Both concentrate in the key areas driving economic growth in Laos: construction, tourism, trading and agriculture, particularly logging.

And earlier this year the Ministry of Defence, through the army's Department of Logistics, got directly into the act. It took a 25 per cent stake in the country's largest non-power generation project to date, a \$211m hotel, marina

and casino complex spread out over 15,000ha just 90km from Vientiane to be developed by the Syuen Group of Malaysia.

This joint-venture, along with the party congress where the military eased out some technocratic reformers, has potential investors taking notice.

"There is a logical nexus here," says an Asian diplomat. "If investors need approval from someone in a high position and those high positions are occupied by military men, then a lot of companies are going to have to take a look at involving the military in their projects."

Momentum for a military takeover grew last year when poor management of the economy led to inflation of 19 per cent and a corresponding devaluation of the currency, the kip, in the midst of growth of more than 7 per cent.

The root cause of inflation, says UNDP senior economist Mr Romeo Reyes, is a budget deficit of more than 10 per cent of GDP. Revenue is hard to come by because there is no coherent tax collection system. A new tax law was passed two years ago but there are still no regulations to enforce it, he says.

As a result, "you've got 800 investment projects going forward and the government doesn't have a clue as to what they are earning," says a long-time foreign resident who has a government contract. "Giving the projects to the military gives them some control over what is going on."



Depressure
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IRA deals blow to peace process

By John Kampner, Chief Political Correspondent

Prospects for political progress in Northern Ireland were dealt a serious blow last night after the IRA warned it would never hand over any weapons before a final settlement.

The IRA statement - its most pessimistic assessment since the resumption of violence last February - was compounded by last-minute hitches between the UK and Irish governments over an agenda for all-party talks next week.

A deal had been signalled earlier in the day following seven hours of talks between senior ministers. But the agreement began to unravel soon after the sides privately accused the other of renegeing on it.

A British official said failure to agree could lead to a postponement of the negotiations, which are due to begin in Belfast next Monday. In the past, however, the governments have managed to bury differences at the last moment.

Mr Bruton stopped over in London on his way to Dublin from an official visit to Bonn, for talks with Mr David Trimble, the Ulster Unionist leader. Contingency plans are being made to prevent any disturbances outside the venue for the talks, which Sinn Féin are almost certain to be excluded from. Both governments continue to insist on a restoration of the IRA ceasefire as a condition for Sinn Féin participation.

The Irish believe that if Mr Mitchell is allowed to run the talks, including the most important section which deals with a future relationship between the Irish republic and Ulster, the IRA might yet soften its position.

British ministers want to confine Mr Mitchell's role to the opening plenary session, and to the sub-committee that will look at the issue of paramilitary weapons.

The inter-Irish element would instead be handled by General John de Chastelain of Canada. He was a member of the three-man team headed by Mr Mitchell whose report last January suggested six principles of non-violence to replace the UK's insistence on a prior bandover of IRA weapons.

Mr de Chastelain is seen by the British as more sympathetic to Unionist concerns. "This is not a trivial point," a senior UK official said. "The fear is that Mitchell could change everything, and give the talks a spin which people here as well as Unionists couldn't live with."

The problems between the governments over the talks threatened to overshadow a first official visit to the UK by Mrs Mary Robinson, the Irish president. In its statement, the IRA said the British government's position had hardened. "The likelihood of any IRA ceasefire is remote in the extreme," it said.

Old Comet jets may get new lives

By Bernard Gray, Defence Correspondent

The unlikely prospect of a new generation of Comet aircraft taking to the skies has received a boost with British Aerospace offering to build advanced versions of the famous 1950s airliner for export as a maritime-patrol aircraft.

Bae has teamed with Boeing of the US to offer to refurbish the Royal Air Force's existing Nimrod maritime patrol versions of the Comet in a £2bn (\$3.1bn) Ministry of Defence competition to be decided this summer. Now the two compa-

nies have joined US aircraft manufacturer McDonnell Douglas to export new Nimrods.

The agreement is part of a marketing battle to persuade the MoD that its choice of maritime-patrol aircraft offers export opportunities for UK companies. Bae and Boeing are competing against the General Electric Company and US aerospace giant Lockheed Martin for the contract.

GEC has offered an electronics package for the submarine-hunting aircraft to be fitted into the Lockheed Orion aircraft, itself a 1950s design and the aircraft used by the US and

Japanese navies. GEC says its bid for the UK competition offers greater export prospects because its latest generation of submarine-hunting electronics could be fitted to existing or new Orions sold around the world.

It also maintains that its UK-designed system would bring more work to the UK than the Bae-Boeing bid, which is largely based on US electronics.

Bae says the task of integrating the electronics into the aircraft is comparable to that in the Eurofighter, and it is the only UK company up to the complex job.

Bae and Boeing have struggled to show that they could export their system, because the 28 Nimrods in use with the RAF are the only ones flying. The offer to build new versions is an attempt to get around this problem.

The MoD has been sceptical about export prospects for either system, however. The GEC system is apparently more exportable, but the MoD believes the US and Japanese navies, the biggest users of this type of aircraft, will develop the next generation of electronics themselves rather than buy from the UK.

In the final round of bidding for the UK competition, which has just closed, the Bae refurbishment offer is thought to have proved cheaper than the GEC new aircraft bid, putting the Bae-Boeing team ahead.

Some in the MoD believe the US and Japan will not upgrade their propeller-powered Orions, but will buy jets.

The prospect of new Nimrods, the only jet used for submarine-hunting, would seem more realistic. Industry insiders still suspect, however, that the US will choose to develop its own jet aircraft for the job, or adapt existing US jets for the task, in spite of the extra costs involved.

EC threatens UK over beef

By Caroline Southey in Brussels

George Parker in London and Robert Graham in Rome

The European Commission is expected to stop co-operating with Britain on the terms of a framework agreement to lift the ban on British beef, unless Britain gives ground in its campaign to block EU business.

Signs that the Commission was losing patience with the UK government emerged after Commissioners yesterday decided to ease the ban on exports of three British beef by-products: gelatine, tallow and bull semen. But the decision was a close call.

The easing of the ban was followed by a warning from Mr Jacques Santer, Commission president, that Britain's policy of non-co-operation in the European Union stood in the way of a wider deal on lifting the ban on British beef - a message he intends to reinforce in a personal appeal to Mr John Major, the prime minister.

Mr Santer's message was triggered by the anger of a majority of Commissioners, who argued forcefully yesterday against easing the ban until the UK government stopped blocking EU business.

"It was very close. It nearly went wrong. The Commissioners don't like this tactic of blackmail," said one EU official, adding that "the Germans are raising the temperature."

EU officials said the Commission would "not co-operate on drawing up the framework" unless Britain made a "significant gesture" over its policy of non-co-operation.

Britain has not been allowed to de-escalate its action. We want a clear signal from London. If not, the Commission will not be prepared to work on the framework," an EU official, adding that all eyes were on a meeting of foreign ministers next Monday.

There is virtually no possibility of Britain reacting agreement on the framework with the other 14 member states unless it has the Commission's support.

As the pressure grew on Britain to drop its non-co-operation policy, Mr Santer hinted that the Commission could take legal action if the UK persisted with its campaign. He attacked the "manifest and deliberate policy of obstruction" which he said was against "both the letter and the spirit of the treaty".

Members states could not be allowed to "duck their responsibilities", he said, adding that they had to remember their obligations under the Treaty of Rome.

He called on the British government to "appreciate what the Commission has done", adding that "we have made an important gesture of solidarity. Solidarity is not a one-way street. It is a two-way street."

Climate to feature in water forecasts

By Leyla Boulton in London

The Environment Agency revealed yesterday that it planned to factor climate change into its projections of water supplies, following last summer's drought.

Mr Jerry Sheriff, the agency's head of water resources, said that climate change was "just one factor to take into account" in addition to water companies' progress in tackling leaks, which last year lost a quarter of supplies.

He told a parliamentary inquiry into the recent water shortages that it was not possible to quantify the effects of climate change but that the agency would have to "make a pragmatic judgement".

The agency is likely to have an indirect impact on the sector of new capital investment companies are allowed to make.

This is one of the first times that global warming - a phenomenon which is still being studied - has been incorporated into government policy affecting an industry other than energy.

Yesterday's announcement by the Environment Agency coincided with the launch of a report by the International Panel of Climate Change saying that "evidence suggests there is a discernible human influence on climate change".

Although the report was accepted by governments six months ago, the particular phrase has come under recent criticism from the World Energy Council, which represents the energy industries of 100 countries.

Sir John Houghton, co-chairman of the working group which produced the report, said he stood by that phrase "four-square".

Mr John Gummer, the environment secretary, will next month present a report on potential implications of climate change for Britain. A 1991 report said that, by the year 2030, Britain could expect very hot summers to occur more frequently.

A separate IPCC report on the social and economic implications of climate change, launched yesterday, said that the problem warranted taking measures beyond a so-called "no regrets" policy of actions that cost nothing.

Mr Michael Grubb, one of the report's authors, said that UK measures could mean continuing state subsidies for renewable forms of energy.

CBI warns of beef row damage

By Stefan Wagstyl in London

The CBI yesterday increased pressure on the government to secure an early end to the beef dispute with the UK's European partners by warning that it was harming British business.

"Let's not kid ourselves. Careless talk of Britain leaving the EU will cost jobs," said Mr Niall Fitzgerald, the chairman-designate of Unilever, the Anglo-Dutch food group, and chairman of the CBI's Europe Committee.

Speaking at a CBI conference attended by Mr Michael Heseltine, the deputy prime minister, Mr Fitzgerald said: "This affair has not helped British business in Europe and, if continued, it would be harmful and disruptive to those of us who represent the more than 50 per cent of British trade which is conducted in Europe."

Mr Fitzgerald's remarks contrasted sharply with the CBI's position two weeks ago, when officials declined to comment on the so-called beef war's possible impact on British business.

CBI officials indicated yesterday that the employers' body had decided to enter the debate because of growing fears that arguments over beef were dam-

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Nuclear generator faces price threat

By Simon Holberton in London

British Energy, the nuclear power generator, was yesterday dealt a blow by the announcement of a price cut of up to 6 per cent in the Scottish electricity industry and a call for more competition in the supply of power to industrial customers.

The announcements were made by Professor Stephen Littlechild, head of Oftec, the UK electricity industry regulator. His statement raised questions about the valuation of the soon-to-be privatised generator.

Analysts estimate that British Energy may be worth up to £10bn (\$15.2bn) less because of the Oftec-imposed price cap.

The Department of Trade and Industry said next Monday's prospectus would include a reference to the statement.

British Energy produces half of Scotland's electricity, which Scotland's two vertically integrated power companies, Scottish Power and Hydro-Electric, are required to buy under the terms of an agreement that runs until 2005.

Scottish Power said it believed it had grounds to reopen the agreement with Brit-

Extra-terrestrials limber up for the big match

There is much to play for in the battle to screen the world's major sporting events. By Raymond Snoddy

They say that Euro 96 is about football, but it is also about money, sponsorship, and above all, television viewers. If the England team makes it to the final at Wembley Stadium, UK terrestrial broadcasters the BBC and ITV, which would both show the game simultaneously, would have a total audience of more than 20m, putting the most popular soap opera in the shade.

All ratings history suggests that the audience switches disproportionately to the BBC on the big occasion and that the BBC will score in the ratings. Despite this the ITV companies will have a good game. Not only will commercial TV be broadcasting exclusively what could be England's make-or-break match against Holland, but Euro 96 is likely to add an extra £7m (\$10.64m) to ITV revenues in June, boosting the total to £168m for the month, according to CIA Media Network, the independent media-buying group.

There are, of course, other media outlets. America On Line will cover the three-week tournament on the Internet and ClubCall, the premium telephone service group, will supply the official ClubCall

line. But the real question is whether Euro 96 could be one of the last occasions when hundreds of millions of viewers are able to switch on to "free TV" to watch such a sporting event. Many believe the future of TV sport, and TV football in particular, lies with subscription and pay-per-view, orchestrated by international moguls such

as Mr Rupert Murdoch, chairman of News Corporation. It is difficult to exaggerate the power of live exclusive football for satellite TV. The five-year exclusive deal between the English Premier League and British Sky Broadcasting has been the single biggest factor in turning BSkyB into a consortium capitalised at more than \$7.5bn.

Even as the Euro 96 players limber up for the opening matches Mr Murdoch, Mr Michael Green, chairman of the UK's Carlton Communications, and Lord Holford, chief executive of United News and Media, will be playing for the next Premier League contract. With it will almost certainly come the right to show all the league games from the UK's

1997-98 season live on pay-per-view. The sums involved could easily top £750m. Exclusive pay-per-view on digital TV is a trend spreading throughout Europe. Canal Plus, the French subscription TV group, will televise all French first division games on such a basis in the coming season. In Italy, Telepiu, the digital TV foot-

ball pay-per-view season in September. The Telepiu technology is so sophisticated that a subscriber from Milan can be excluded from watching the home games of AC Milan and will be able only to watch the away games.

However, despite the huge sums of money likely to be generated by the new "electronic turnstyle" which will transform the economics of many sports, all the signs are that the big international tournaments will remain on terrestrial TV for now. Not only do the sports bodies want the largest and most prestigious shop window for their sports, but sponsors want the largest possible audiences.

The evidence is already there. Earlier this year the International Olympic Committee agreed a \$1.442bn deal with the European Broadcasting Union for the European rights to the winter and summer Olympics until 2008, ensuring the games will remain on terrestrial TV. A \$2bn bid from News Corporation was rejected.

So although fans may have to start paying serious money to watch live league games on TV, the big occasions seem destined to remain where they can command the big audiences.



In the picture: although new media are proliferating, terrestrial TV delivers the biggest audiences

UK NEWS DIGEST

Labour split on PR reopened

Former Labour ministers Mr Roy Hattersley and Mr Gerald Kaufman yesterday sparked a new battle between old and new Labour by launching a campaign against electoral reform. The launch of the First Past the Post Group, which claims the support of more than 100 Labour MPs, restarted the debate that many hoped had been settled two years ago, when the party agreed a compromise under which it would hold a referendum on the issue after the general election. Mr Hattersley "made no apology" for the political motives behind his opposition to proportional representation. He said: "No one doubts that proportional representation, or any of its variants, in this country - no less than in other democracies - would produce the tyranny of small parties." David Wighton

Ethnic disadvantage remains

Ethnic minorities in Britain remain at a clear disadvantage when it comes to employment. Nearly a quarter of the 2m men of working age who belong to an ethnic minority were "economically inactive" last year - neither working nor registered as unemployed - compared with 14 per cent of white men, according to statistics from the Labour Force Survey released yesterday by the Office for National Statistics. About 45.1 per cent of ethnic minority women were economically inactive compared with 28 per cent of white women. Unemployment among ethnic minorities fell to 18.7 per cent last year from 21.5 per cent in 1994. Among white workers it was 8.2 per cent last year, down from 9.9 per cent in 1994. Male unemployment was highest among Bangladeshis, at 35 per cent. About 12 per cent of Indian men were unemployed, 23.3 per cent of Caribbean blacks and 30.9 per cent of African blacks. Robert Taylor

Record year expected for visits

The UK tourism industry is heading for a record year after an 8 per cent rise in overseas visitors in the first three months. A total of 4.63m visitors spent £2.1bn (\$3.2bn) in the January to March quarter, compared with 4.27m and £2.04bn respectively in the same period last year. The figures mean the number of visitors to the UK for the full year should exceed last year's record 33.6m. The number of UK residents going abroad rose 11 per cent to 8.09m in the first quarter, and spending climbed 16 per cent to £3.15bn. Christopher Brown-Humes

Sony deal extended

Creation Records, one of the UK's most successful independent record labels, has clinched a multi-million dollar deal to extend its joint venture with Sony Music, part of the Japanese group. Under the agreement Sony - which bought 49 per cent of Creation in 1992 - has the right to distribute outside the UK all the records made by Creation's acts. The decision reflects the trend for global music groups to adopt a more flexible approach to their relationship with independent labels. The £1bn UK music market is heavily consolidated. The "big five" multinationals - Warner of the US, the UK's EMI, PolyGram of the Netherlands, Germany's BMG and Sony - command more than 70 per cent of sales, according to the British Phonographic Industry. Several leading independent labels, including Rough Trade and Factory, have closed. Alan Raine

FTSE-100 firms audit spend

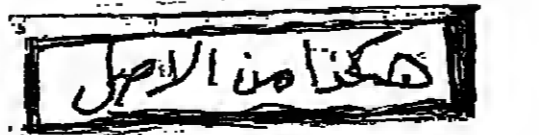
The FTSE-100 companies spent £187.4m (\$294.84m) on statutory audit fees according to their latest accounts, 0.5 per cent more than in the previous year, according to a survey by Accountancy Age. They spent 9 per cent more, or £175.2m, on add-on services such as tax, corporate finance, management consultancy and IT advice. Meanwhile a survey of 200 companies by City law firm Manches showed that less than half of businesses thought accountancy firms should be able to limit their liability by incorporation. Jim Kelly

Local government probe

The Nolan committee on standards in public life announced yesterday that it would next study local government. It would consider whether existing legislation and codes of conduct were appropriate now that councils provided more services indirectly through contractors. It plans to examine rules on declaration of interest, safeguards on relationships with contractors, movement between the public and private sectors, rules on allowances and the liability of councillors. Alan Pike

Money laundering crackdown

The ability of police to react efficiently to information on money laundering in recent months has been helped by "increased resources and better organisation", said Mr Albert Pacey, director general of the National Criminal Intelligence Service. He was delivering the service's annual report, which shows an 8.6 per cent fall in the number of suspect transactions reported to the agency by banks. The report says: "The lower figures for this year are in part due to greater familiarisation by financial reporting officers... and the drive towards higher quality reporting." The service has invested in more staff and updated its technology, while developing its links with MI5, the security service. Jimmy Burns, London



BRAZIL and the state of Bahia

Not yet clear of danger

In spite of substantial economic progress, short-term problems keep the success to which the country aspires out of reach, says Angus Foster

Brazil is lost in a time warp, cut off from its past yet still not within reach of its future.

Even the Brazil of two years ago seems to belong to a different epoch. Inflation was then nearly 40 per cent a month, politics was overshadowed by the mediocrity of former president Itamar Franco and some analysts thought a return to power by the military to be possible.

The success of the "Real" plan, named after a new currency launched in July 1994, has brought inflation to less than 2 per cent a month. The election as president from January 1995 of Fernando Henrique Cardoso, a cautious but talented former sociologist, has introduced a rare stability into politics.

But the Brazil to which leaders such as Mr Cardoso aspire is as elusive as ever. It remains one of the most unequal countries in the world in terms of wealth distribution, with an equally dangerous gap between the rich south and poor north. Its human rights atrocities continue to shock the world, most recently in April when police gunned down at least 19 landless farmers. And the country's politicians, dogged by powerful interest groups, nepotism and corruption, seem increasingly out of kilter with their electors.

Linking Brazil to its ideal future - defined by most as above average growth, a less intrusive government and a more just society - will not be easy. Mr Cardoso, thanks to the power of the presidency, could play a defining role. But in a country as big and compli-

cated as Brazil, the changes needed will never come as quickly as Brazilians and foreigners hope.

Seen from a distance, the situation looks favourable. The economy grew 4.2 per cent last year, and should grow about 3 per cent this year. Since 1990, the economy has been opened to foreign competition and industry has restructured impressively. Foreign direct investment could double this year to \$57bn and Brazil has foreign reserves of more than \$50bn, storing up confidence in the overvalued Real.

Pedro Malan, finance minister, has a much more comfortable job than his predecessors. In the period from 1981 to 1992, the so-called "lost decade", Brazil had seven years of falling per capita growth. "In the six years from 1993 to 1998 we'll have an average annual rate of growth of 4.5 per cent and inflation will have gone from 4,000 per cent to one digit," he says.

Seen from close up, however, problems in holding the Real plan together begin to emerge. The government's failure to control spending has forced up interest rates to finance its operational deficit, which last year reached 5 per cent of gross domestic product. With annual real interest rates above 20 per cent, investment and growth will be well below potential.

Winston Fritsch, a Rio de Janeiro-based economist, believes the government has time to cut spending and raise domestic savings to aim for 6 per cent annual GDP growth. "You have to raise the growth



Housing apartments in the centre of São Paulo: wealth distribution remains extremely unequal Tony Morrison

rates to absorb the unemployment created by liberalising reforms, and to solve Brazil's social problems," he says.

Mr Cardoso's election platform aimed to continue the restructuring of the Brazilian economy, under way since 1990. State-led development has been superseded by a greater reliance on the private sector. Mr Cardoso pledged to shrink the government and channel spending into key areas such as education and health.

Progress has been erratic. He made a good start last year, changing the constitution to open up telecommunications and electricity to private sector competition. But proposals to cut government spending by reforming the social security system, and civil service have been emasculated in the lower

house of Congress, where party discipline is weak and members of Mr Cardoso's coalition often vote against the government.

Many of the proposals were controversial and involved reducing special privileges of powerful groups such as judges and the police. But the setbacks in the reform process have not only undermined Mr Cardoso's authority, they have also used up valuable time.

Traditionally, Brazilian presidents are strongest at the beginning of their mandates. With Mr Cardoso heading towards the halfway point in his four year mandate, some analysts worry that the good part is already over.

His fixation on pushing the reforms through Congress has

also focused media attention and public opinion on the capital Brasília and Brazil's corruption and outdated party system.

Concentration on the reforms has also overshadowed changes elsewhere in Brazilian society, which will ultimately be far more important. They include the slow but steady strengthening of local democracy in the rich south, emerging consumer groups and a more investigative media.

Lowered import tariffs and the Mercosur customs union with Argentina, Uruguay and Paraguay, have forced previously myopic businessmen to look overseas and strive for world standards, suggesting recent productivity gains can be extended.

Mr Cardoso may yet reinvig-



Children collecting melons for Salvador market: the fall in inflation has improved the diet of the poor Tony Morrison

orate his presidency and give new impetus to the reforms. He has recovered in the past, using his charm and capacity to build consensus to hold together a fractious alliance. But if he fails, critics who pointed to his lack of executive experience and readiness to compromise will feel themselves vindicated.

Government members often call for patience, arguing that modernising a country with wide regional differences is difficult. They say there are no short-term threats to the economy and that debunking staled development will take time. "The government has not lost its impetus, it's just that these reforms are more difficult and they are being discussed in an open democracy," says Marco Maciel, the Brazilian vice-president.

The weakness of this argument is that it tends to assume delays do not entail costs and losers. Yet, without reform, the government's tax revenues will continue to disappear into its bloated payroll costs and generous pensions, rather than into the social projects which it admits are needed. More than 90 per cent of revenues are spent on payroll, interest payments and transfers, leaving just R\$550m a month for investment in everything from schools to highways.

The slow pace of change, at both federal and state levels, is

therefore partly to blame for Brazil's continuing under-investment in education and illiteracy rates of above 40 per cent in several poorer states.

Quicker progress could have provided more money for the collapsing public health system, and perhaps prevented the tragedy which took place earlier this year when more than 40 people who used an infected dialysis machine died. And better targeted spending could have helped train police forces to cope with the violence of Brazil's big cities, and not to gun down landless farmers.

The April massacre triggered strong reactions from the media and public opinion. Outrage was probably exacerbated by television pictures of the police opening fire. But this may also have reflected popular frustration that having conquered inflation, and created a currency as strong as the US dollar, Brazilians were suddenly reminded of how much remains to be done before the country reaches the future it claims to deserve.

Given Brazil's size, natural resources and the creativity of its people, it could play a leading role in the world economy next century. The progress of the past two years has brought this nearer. But the way through its short-term problems, to tie the present to the future goal, remains elusive.

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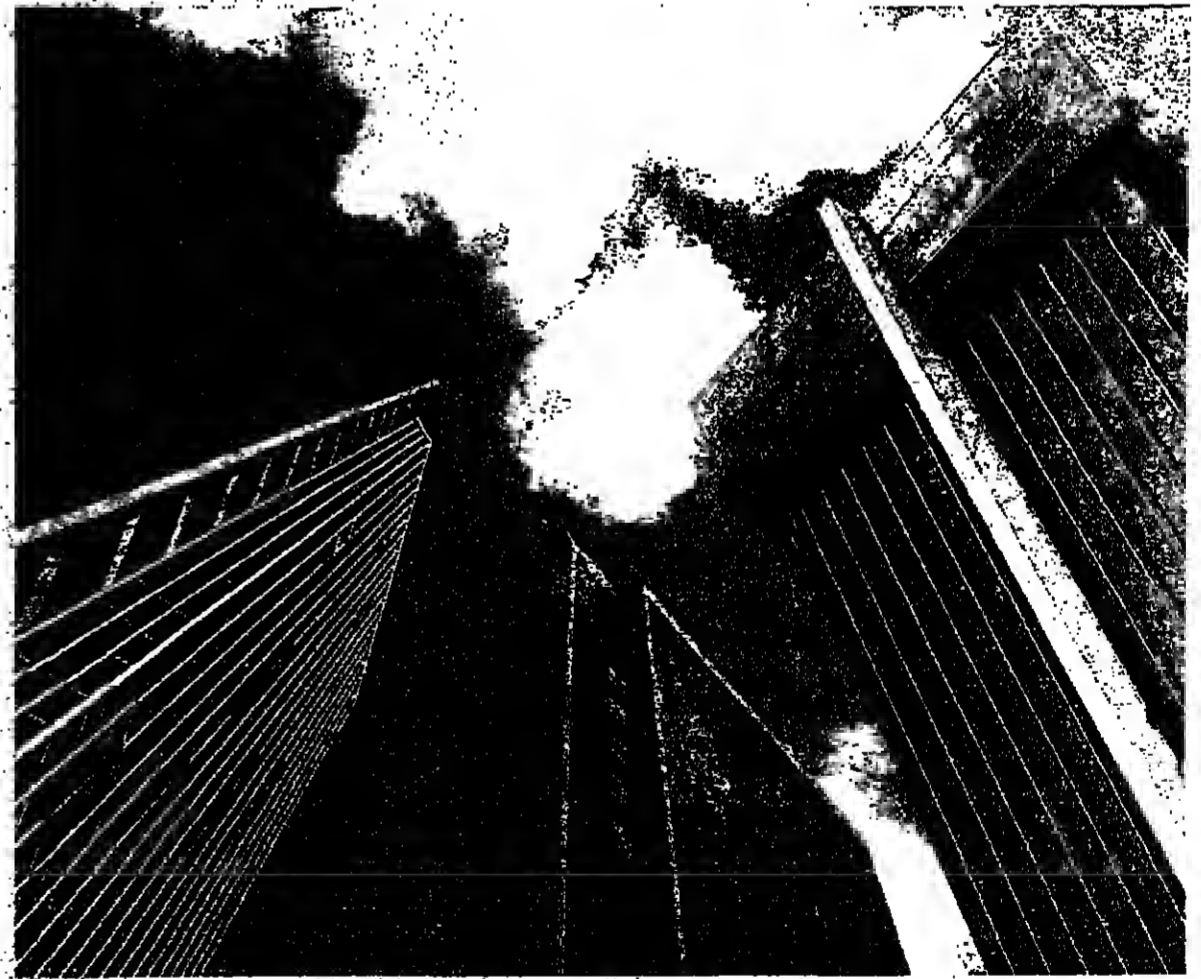
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The state of Bahia

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TECHNOLOGY

Cleaner ways with magnets

The ability of micro-organisms to devour toxic chemicals is often used to clean up polluted sites. In a variation on this theme, scientists have found a way to use the magnetic properties of some bacteria to remove toxic metals from contaminated water.

These magnetic bacteria could find a role in clearing out the canals of Venice. Over the years, these have silted up so much that it is sometimes impossible for emergency vehicles to gain access at low tide.

The canal system is polluted with toxic heavy metals from the industrial complexes around the Bay of Venice. That presents difficulties in dealing with the sediments removed after dredging the canals.

A team of scientists from Italy, the UK and Ukraine believe that magnetic bugs could provide the answer. The bacteria would attract the heavy metals in the sediments; the metals and bugs could then be separated from the rest of the sludge by using a magnetic system.

The technology was developed at Southampton University by Jim Watson and his colleagues when they investigated the properties of certain bacteria that occur naturally in sewage, deoxygenated water and sediments. It is being commercialised by Biopraxis, a start-up company in which the university has a 25 per cent stake.

The team found that, when mixed with certain metals and nutrients, the bacteria were able to absorb a large amount of certain metals. They subsequently discovered that the micro-organisms produced an iron sulphide coating that attracts and holds certain metals.

The project, which is seeking funding from the EU's Copernicus project, is linked to another project concerned with the clean-up of sites contaminated with radioactive metals in Ukraine. According to Watson, the technique is inexpensive and can cope with very low concentrations of metals, making it suitable for cleaning up radioactive waste.

Vanessa Houlder

Early in the next century, those nattily-dressed flight attendants on the world's commercial airlines could find themselves overshadowed by the "smartness" of their own aircraft.

A global race is on to develop the world's first aircraft constructed from structures that will monitor their own health during flight, and warn of any cracks or defects as they occur. Aircraft with feelings, one might say.

These self-sensing structures will replace some traditional ground-based inspection, creating a sea change in the way the health of aircraft is checked, improving safety and reducing maintenance costs.

Aircraft are subjected to continuous inspection throughout their life in a battle to detect signs of corrosion or microscopic cracks caused by metal fatigue, which, if allowed to go unnoticed, would impair their safety.

The importance of this regular inspection is illustrated by the few occasions when things do go wrong, such as the case of an Aloha Airlines Boeing 737 flying between the Hawaiian Islands in 1988.

In spite of continuous health checks, shortly after takeoff, and at a height of 30,000ft, a 8m section of the aircraft's fuselage broke away, instantly sucking a flight attendant to her death and leaving 61 of the 95 passengers injured, three critically.

The cause of the accident was microscopic cracking of the fuselage which had grown imperceptibly over many years of service and which finally spread as the aircraft climbed to its cruising height.

Monitoring the health of aircraft is a laborious process. Ground staff check an aircraft every time it lands; at regular service intervals aircraft are stripped of their internal fixtures and subjected to detailed inspection, including the use of ultrasound.

The commercial overheads of such a regime are enormous. British Airways alone employs more than 1,000 staff to inspect and service its 80 Boeing 747s, and the world's airlines spend an estimated \$30bn (£20bn) annually on the costs of repairs, overhauls and spares.

These health checks also reduce the revenue-earning capacity of airlines because they remove aircraft from service for periods ranging from days to weeks.

Health monitoring must remain central to airline safety, but, as Barry Booth, chief of development engineering at British Airways says: "Airlines welcome any new technology which will improve on their existing practice."

Such a technology is now possible. To create a "smart"

Smart jets that can warn of defects and repair themselves are now a possibility, says Cliff Friend

The feeling aircraft

THESE SELF-MONITORING AIRCRAFT HEALTH CHECKS ARE GREAT BUT I WISH THEY COULD BE MORE SPECIFIC



structure, an aircraft must be covered in a network of sensors, rather like the human nervous system but made of optical fibres, similar to those used to carry telephone calls.

When a portion of optical fibre is stretched or compressed, the frequency range of the light carried within it changes. Processing these changes by computer allows engineers to detect stress and strain at thousands of separate points along such a fibre.

When bonded to a conventional aluminium aircraft, or woven into the carbon-fibre reinforced plastics (CFRP) now entering service in the latest generation of passenger aircraft, networks of these "optical nerves" will monitor any damage

that develops through impact, corrosion or fatigue. Demonstrations of this technology already exist. Ray Measures, an aerospace engineer at the Institute of Aerospace Studies in Toronto,

has built an experimental section of "sensual" wing for the De Havilland of Canada Dash turboprop aircraft, which is in service with commuter airlines worldwide.

The wing's leading edge is a particularly difficult region to inspect conventionally and so Measures has incorporated "optical nerves" to inspect it. The wing has not yet flown, but ground tests have shown it can detect the damage which results from impact with foreign bodies such as runway debris and birds.

Worldwide, many other aerospace companies are developing similar demonstrators, including British Aerospace which is working on a sensual fuselage based on similar fibre-optic technology.

However, sensuality is only the beginning of "smart" aircraft. Work is already under way to create aircraft that not only sense damage but also make themselves healthy again.

Griffith University is working on "composite structures" that can "limp home". These contain muscle-like metal wires that can adapt their shape in response to control signals and be activated at the first sign of damage. These wires shut any cracks, minimising the further accumulation of damage and allowing a damaged aircraft to fly safely to its nearest airfield for an emergency landing.

Self-repairing structures are also becoming feasible. For example, Carolyn Dry at the University of Illinois is developing composite materials containing hollow fibres that can release adhesive into a damaged region of structure. These will allow localised self-repair, as well as the possibility of repair systems that can be replenished at regular intervals or improved during the life of an aircraft.

When "smart" aircraft will appear is a difficult question to answer. Realistically "sensual" structures will be available in the form of advanced demonstrators over the next decade, but self-repairing structures are likely to be earth-bound for many years to come.

However, there is no doubt that "smart" structures will, over the next 20 years, create a revolution in the way aircraft are inspected and serviced, reducing the likelihood of incidents such as that experienced by Aloha Airlines.

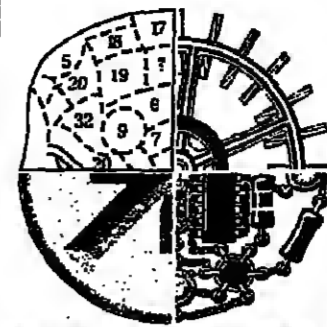
They will also offer improved revenue-earning ability by allowing an airline's aircraft to fly safely for more hours before costly (in commercial terms) human intervention, and offer reduced overheads associated with inspection and maintenance.

Airlines are already responding positively to this technology. For example, British Airways' engineering division, one of the industry's leading maintenance and overhaul businesses, is assessing the potential of "smart" aircraft structures.

It is, therefore, likely that smart aircraft will soon be in the world's airline fleet once they are proven to offer improved safety and cost benefits and cleared by airworthiness authorities.

Cliff Friend is head of Cranfield University's smart materials group.

Worth Watching · Vanessa Houlder



Porous ceiling built for sports centre

Work has begun on a sports centre in Callander in Scotland with a "porous" ceiling designed to cut down energy consumption and improve air conditions within the building.

The building's loft will be insulated using materials that allow air, moisture and vapour-linked pollution to filter through them.

A fan will draw a slow-moving stream of air into the building through a flue in the roof. As the air moves through the insulating material, it will be heated up. The downwards flow of air should also cut down the energy wastage usually caused by hot air rising to the top of the building.

The insulating materials will be able to absorb and emit water in a way that stabilises the building's humidity. This is expected to cut down problems with mould, bacteria and viruses.

Gaia, the architect, says "dynamic insulation" systems, pioneered in Scandinavia and continental Europe, have cut running costs by up to 30 per cent.

Gaia UK, (0)131 558 1432; fax (0)131 558 1432.

Switch from cobalt for batteries

Rechargeable lithium batteries can store more than twice as much energy for their weight as other rechargeable batteries. But their use has been limited by the high cost and the toxicity of the cobalt component used in the electrode.

Chemists at the University of St Andrews in Scotland have experimented with an electrode material that replaces cobalt with manganese - which is far less toxic and 100 times cheaper than cobalt. According to a report in today's Nature, its charge capacity and stability compares

well with other compounds used for lithium battery electrodes. University of St Andrews, UK, tel (0)1334 463225; fax (0)1334 463208.

Automatic search through a database

Tracking down relevant articles on an electronic database can be time-consuming. The answer, according to a US electronic business information service, is to offer readers summaries of articles that are automatically generated using statistical techniques.

Intell.X says its summaries - which consist of a few of the most relevant sentences directly from the full text of the article - can cut down the information overload facing managers.

This kind of text-summarising program is an example of "natural-language processing", in which computers deal with information expressed in a human language. It uses statistical tools to sift the text to find phrases that occur most frequently. By assuming this is a measure of relevance, the sentences can be ranked in order of importance. Intell.X, part of DataTimes Corporation, used software developed by Claritec Corporation based in Pittsburgh.

Intell.X US, tel 703 3247400; fax 703 3247401.

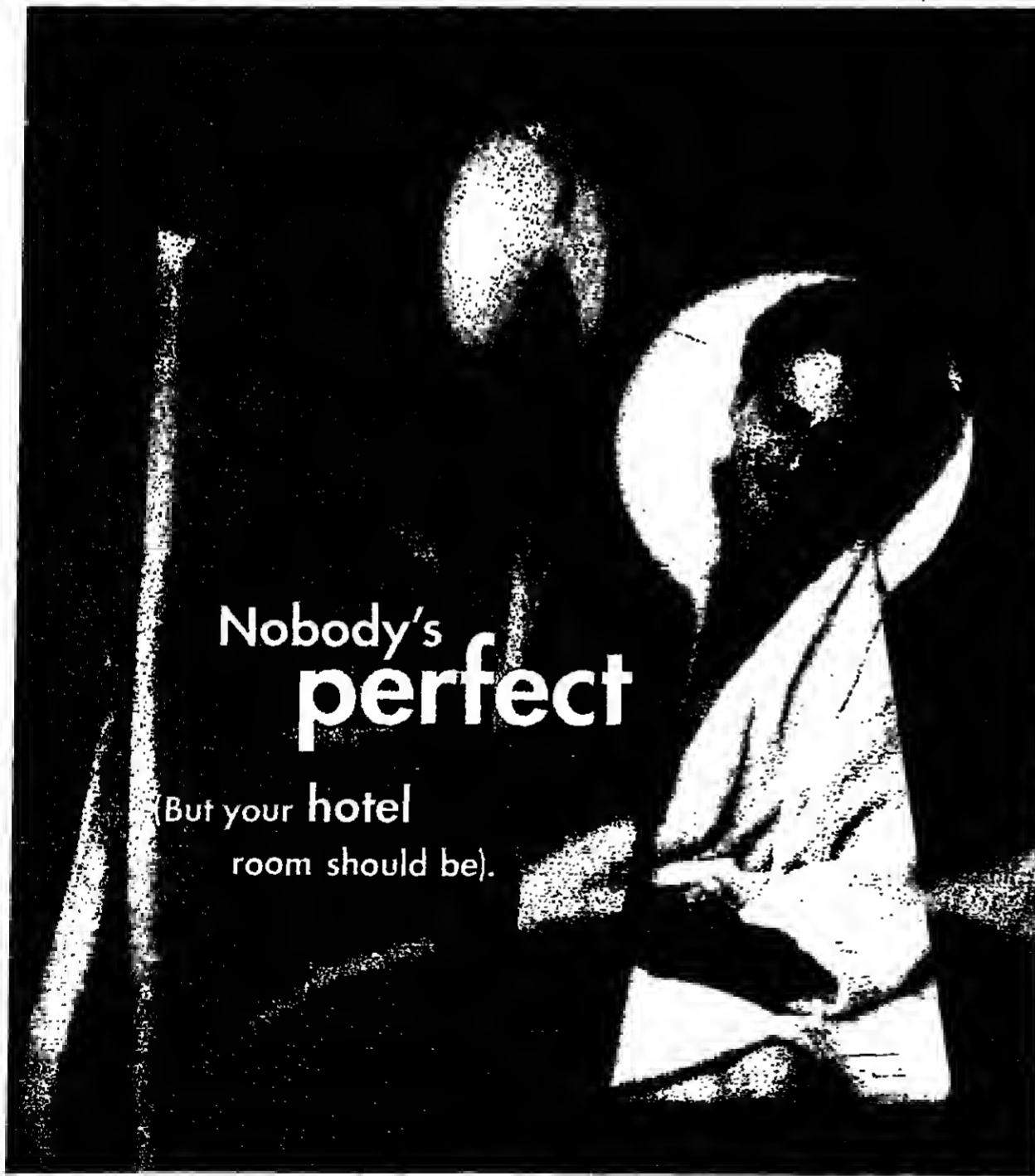
Plastics sorted with air and water

Daimler-Benz has found a way of recycling plastics from disused components and production waste, that dispenses with the need to sort types of plastics by hand. The technique consists of a glass column filled with several hundred litres of water and air bubbles.

The technique relies on the different responses of different types of plastic granules when put in water. Plastics that are difficult to wet are more likely to attract air bubbles and float. Conversely, the plastics that are easy to wet, or hydrophilic, stick to the bottom of the column.

Tannic acid can be used to separate plastics that cannot otherwise be distinguished using this technique. The acid combines with certain plastics in a way that makes them hydrophilic and allows them to be separated from the mixture.

Daimler-Benz, Germany, tel 71117 93602; fax 71117 94563.



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■ **The Brazil cost:** by Stephanie Flanders

Taking a toll on business

The pressure to reduce the high cost of operating in the country is mounting

Ask a Brazilian businessman why he has trouble competing in world markets and it is a fair bet that he will start talking about the "Brazil cost", or "a custo Brasil".

Everybody has their own list of factors that make Brazil a costly place to do business; but high interest rates, poor infrastructure, and the tax and social security system would top most of them.

As ministers are the first to admit, opening up the economy and curbing inflation has not lessened any of these problems. Indeed, in the case of interest rates, the constraints of the Real plan have made it considerably worse.

Roberto Jecha, the chairman of a São Paulo paper and packaging company claims it is now all but impossible for the average Brazilian company to borrow for investment. Interest rates are a good deal lower than they were a year ago, but commercial loans still cost upwards of 5 per cent per month.

Mr Jecha believes that the duration of loans is an even larger block on investment. Domestic bank loans rarely extend much beyond 6-9 months, and only the biggest Brazilian companies can raise longer-term funds on international markets.

After two years of falling inflation, banks are at last beginning to offer more 12 to 18-month loans. But Paulo Ferraz, chairman of Bozano Simonsen, a leading domestic investment bank, says that a shortage of truly long-term finance will be a reminder of Brazil's past for some time.

"You are not going to get banks lending money for 15 years until the bank's investors are willing to entrust their cash the same length of time," he says.

"In a country with a history like Brazil's, people might have to see 15 years of price stability before they are will-

ing to take that chance".

Poor infrastructure is hardly a uniquely Brazilian problem. But it takes a particular toll on business costs in a country of its size.

Any businessman can cite examples of producers in the interior whose costs are a fraction of the international average before they leave the factory, but well above it by the time goods have negotiated their way to port. In the congested city of São Paulo, residents joke that they spend half of the work day waiting in traffic - the other half waiting on the line.

With every layer of government strapped for cash, the government is pinning its hopes on the private sector to put this part of the Brazil cost right. So far the government's drive to open up public infrastructure concessions to private holders has met with mixed enthusiasm at the state level. But the sheer weight of demands in cities such as São Paulo and Rio is forcing the pace of reform.

The hope is that other states will be forced to follow their example, for fear of losing out in inter-state competition to attract private jobs and investment. But it could be many years before most companies feel the effects.

By common agreement, the problem with the tax and social security system is less the size of the revenues collected than the structure. Taxes are skewed heavily towards employment and production, and are often models of poor design. For example, there are 21 different social security contributions, many of which "cascade" down the production chain since they are based on turnover.

Opposition in Congress has put paid to the government's hopes of comprehensive social security and tax reforms this year.

But reformers are hoping to eliminate some of the system's worst excesses through piecemeal legislation.

Here, as elsewhere, the "custo Brasil" is on the way down, though a good deal more slowly than ministers and employers would like.

■ **Politics:** by Angus Foster

An increasingly tangled web

The president has had to muster his strength to keep the government's coalition together

Politics in Brazil is so complicated that a word had to be invented for it. "Fisiologismo" was dreamt up to describe the bargaining between different interest groups needed to oil the wheels of Congress. With so many regional and party interests, the bargaining often takes on absurd proportions.

Thus, in order to salvage his troubled social security reforms on course, President Fernando Henrique Cardoso has so far had to promise to refinance part of São Paulo's debts, water down proposals to call to overdue farm loans and speed up government hand-outs to the poor north-east.

It is a system that is far from ideal, and its emergence is blamed on Brazil's still young democracy and a distorting election system for the lower house of Congress. "We need reform of the electoral and party systems to guarantee governability," says Marco Maciel, the vice-president. Mr Cardoso hoped when he

took office to pass political reforms which would address some of the problems. But the ideas are controversial and have hardly been discussed, suggesting Brazil will be burdened with its political process for some years yet.

The chief problem is in the lower house where each state is a single constituency and deputies need only a few thousand votes to be elected, especially in the poor north.

Deputies tend to represent narrow, regional interests and often show little concern for important issues affecting the whole of the Brazilian federation.

Compounding the problem is the fact that the 17 political parties in Congress are weak and usually based around powerful individuals rather than ideology. The Democratic Movement party (PMDB), the largest in Mr Cardoso's coalition alliance, is split into four wings divided along regional and personal lines. Some wings regularly vote against the government when they feel their interests are threatened.

Sitting at the centre of this tangled web is Mr Cardoso. He has needed to muster all his charm and political nous to keep the government's coalition together, since it stretches from his own Social Democ-

racy party (PSDB) to the right wing Liberal Front (PFL).

The coalition, in theory, has nearly 350 of the 513 seats in the lower house, easily enough to secure the 308 votes needed to pass constitutional amendments.

At the time of voting, however, party loyalty has often counted for little. By the time it was first approved, the social security reform had been subject to so many compromises that some ministers admitted it was only a stop gap measure which would need to be addressed again in a few years.

The coalition's ideological diversity is another debilitating factor. In a recent vote over cellular telephones, the main argument was between coalition allies in the PSDB and PFL, some of which nearly came to blows. Meanwhile, Mr Cardoso's hopes of accelerating land reform are opposed by the - largely landowning - leaders of the PFL.

"The president is a shrewd politician, but the type of alliances he made will prevent him making things work," says Luiz Pedone, a political scientist in Brasília.

As if all this was not complex enough, the issue of re-election will soon make things even more complicated. According to the constitution,

holders of executive office such as the president, state governors and mayors, cannot run for re-election after their four-year terms. Mr Cardoso is almost certain to try and amend the constitution, to allow re-election, once October's municipal elections are over.

He is likely to be supported by incumbent governors, who would also benefit from the change, but opposed by the many potential alternative candidates for president in the 1998 elections.

Some of the leading candidates for the post, such as president of the senate José Sarney, may be tempted to put their own interests above those of the government, weakening Mr Cardoso's position in Congress.

According to many analysts, Congress rarely votes against the public will and re-election will depend on Mr Cardoso's popularity. "If the people don't want re-election, Congress won't vote it," says Mr Antonio Carlos Magalhães, one of the country's most powerful senators.



President Fernando Henrique Cardoso

The price Mr Cardoso will have to pay for re-election, persuading enough interest groups to support him, is not yet clear.

Recent opinion polls suggesting his popularity is falling - probably because of concern about rising unemployment - and media criticism of the government's social policies, will certainly raise the stakes when the bargaining, and the "fisiologismo" gets under way.

■ **Capital markets:** by Jonathan Wheatley

Premier role still elusive

More reforms are needed if São Paulo is to become the region's leading financial centre

That Brazil's financial markets managed to function at all during decades of boom, bust and runaway inflation demonstrates their resilience and sophistication.

However, the prospect of sustained economic stability means capital markets, particularly stock markets, have some catching up to do. The São Paulo Stock Exchange (Bovespa), although Latio America's busiest, is far from fulfilling its main function as a source of investment capital.

Daily trading on the Bovespa, at about R\$350m, is half the level it was at the start of the decade, when the government of the former president, Fernando Collor, began dismantling trade barriers and launched capital markets on a wave of optimism. Despite the successes of the incumbent president, Fernando Henrique Cardoso, investors have since got used to the idea that rebuilding an economy the size of Brazil's takes time.

Low volume on the Bovespa, which claims 90 per cent of Brazilian trading, inevitably leads to low liquidity, exacerbated by concentration in a handful of shares. The market is developing reforms designed to spread liquidity to second- and third-tier stocks.

To attract new custom, the Bovespa recently introduced stock lending, and plans to launch Brazilian Depository Receipts. The idea may sound far-fetched, but the exchange says three foreign companies are already interested.

Volume growth, however, will only come with structural economic reform. Taxation, public administration and pensions must all be overhauled before the government can reduce interest rates to international levels and allow companies to invest in production.

Few investors doubt that the government is on the right track. The US asset management company, Capital Group, which has \$1bn in third party

funds invested in Brazil, demonstrated its faith recently by forming a joint venture with local bank BBA Creditanstalt.

Although many investors have been disappointed by the pace of reform, advances have been made. The government's privatisation programme was boosted last month by the sale of a controlling stake in Light, a Rio de Janeiro electricity company, for R\$2.2bn. Reforms of Brazil's pensions system have been diluted and delayed by congress, but the changes will still help financial markets. "The reform isn't ideal, but even so it will lead to a big increase in savings," says Alberto Alves Sobrinho of Fair Corretora, a São Paulo brokerage. "Some of that will make its way into stocks."

There is little prospect of new stock issues, however, while many companies are trading at below book value and while family owners remain unwilling to relinquish control, there is little chance of new stock issues. Nor is the fact that many Brazilian companies prefer to use fixed-income instruments to raise capital encouraging.

Domestic interest rates are still extremely high by global standards, so much Brazilian debt is placed overseas in Eurobonds and other commercial papers. Public and private issues rose from \$5.96bn in 1994 to \$9.65bn last year and spreads have fallen as confidence in the economy has grown.

Brazilian interest rates have also attracted short-term investment from overseas. Despite the arbitrage opportunities for investors elsewhere in Latin America, however, most of this capital has come from outside the region.

"Investors in other Latin American countries know their own markets well but are less able to gauge risk in Brazil," says Marco Ferrazoli, a fixed-income trader at Bank of Boston's São Paulo subsidiary.

If lasting stability is achieved, Brazil will become less of a mystery and regional integration should increase. But the idea of São Paulo becoming the financial capital of Latin America, is, says Mr Ferrazoli, "still on paper".

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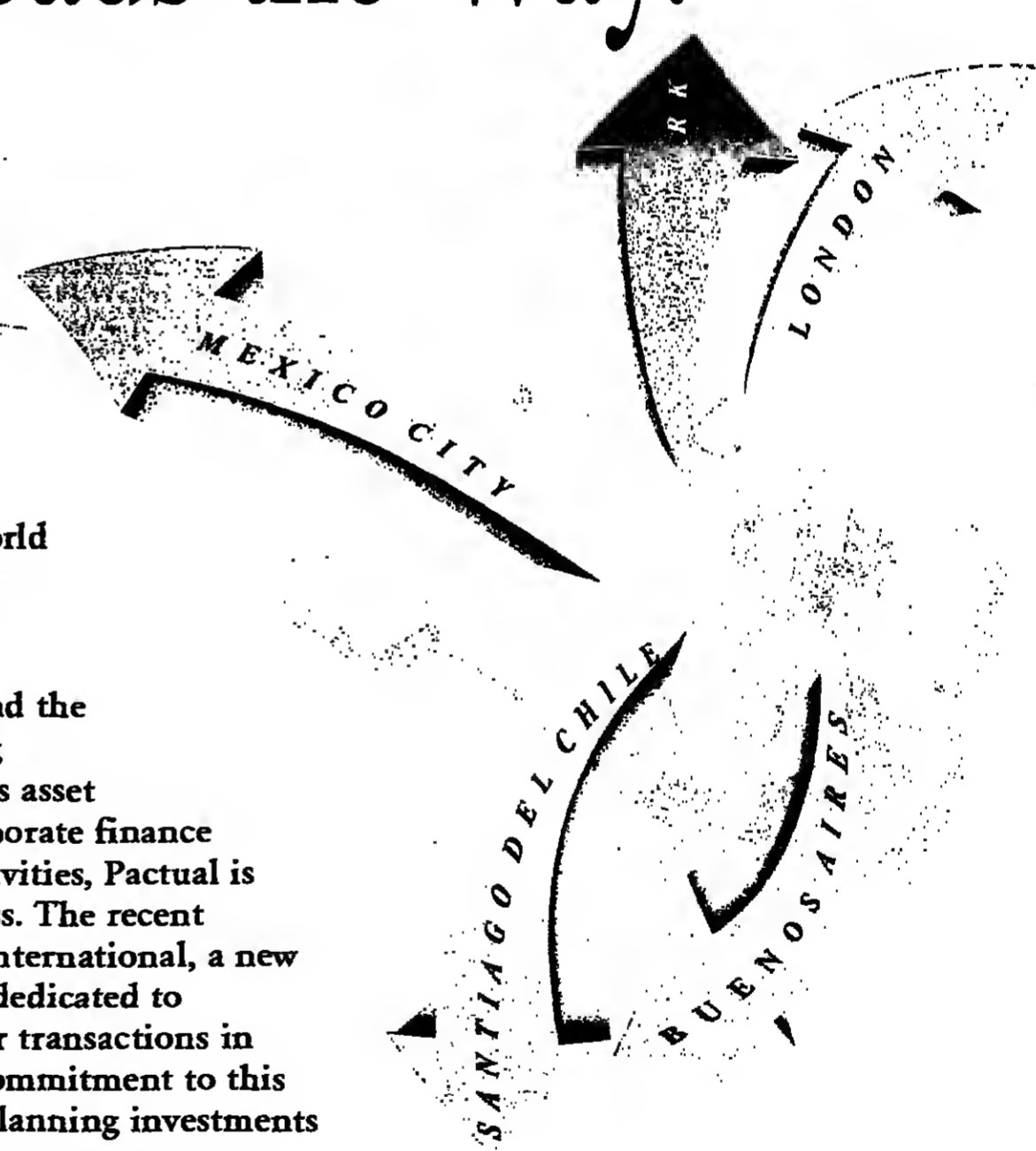
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■ **Privatisation:** by Stephanie Flanders

Mature but slow-moving

While the valuable public service and utility sectors are now part of the process, progress remains sluggish

Ministers like to say that the six-year old Brazilian privatisation programme has reached "a new stage of maturity" under the government of President Fernando Henrique Cardoso.

The good news, for foreign investors, is that it is finally beginning to touch the highly valuable public service and utility sectors that were the highlight of sell-off programmes elsewhere in Latin America. The bad news is that this more "mature" process is still painfully slow.

Last month's purchase of a controlling stake in Light, the Rio de Janeiro power company by a consortium including Electricité de France (EDF) is a case in point. The auction, the first to involve significant foreign participation, raised \$2.23bn, making it Brazil's largest privatisation to date. But it was also one of the most delayed, with Light having been first proposed for privatisation in 1992.

The sale of the Rio distributor should help pave the way for the gradual privatisation of the vast Brazilian power generation network, which produces as much energy as the rest of Latin America combined. Like the long-awaited sale of mining giant Companhia Vale do Rio Doce, expected early next year, it will help President Cardoso deflect claims that privatisation has slowed considerably since he took office.

Between the beginning of 1995 and the Light auction, the Cardoso administration raised a total of \$1.1bn, placing 31 companies either partly or wholly into private hands. This compares with 33 privatisation offers - with combined proceeds of \$8.6bn - during the previous four years of the programme.

Finance minister Pedro Malan insists that the government is "100 per cent committed" to rolling back these frontiers of the state - if only because it cannot afford not to. Like most economists, he believes handing over large chunks of the economy to the private sector is the only way to upgrade the economy's infrastructure and raise its productive capacity, given the enfeebled state of public finances.

Yet Mr Malan and other privatisation enthusiasts are also pragmatic about how long it will take the government to translate this theory into practice. The flagship Light privatisation, for example, was rescheduled more times than

anyone cares to remember. Critics see the delays in these and other key privatisations as a sign of waning government enthusiasm. But many of those familiar with the administrative and political niceties involved in putting a company on the market doubt that things could move much faster.

Carlos Langoni, a professor at the Getulio Vargas Foundation in Rio, says the current energy and utility privatisations could not move faster because they raise regulatory and competition policy issues not evident in the early stages of the programme.

Defenders of the government's record also point to important developments at state and local level which many foreign investors - focused on the "headline", federal privatisation programme - tend to overlook.

A severe shortage of public funds is prompting several states and local municipalities to make use of a 1995 law permitting them to grant private concessions for public service projects. Rio de Janeiro has been a pioneer in this, putting many of its roads and bridges up for private contract in the year since the law was passed.

The states of Rio de Janeiro and São Paulo have also had to take the initiative in pushing ahead with power privatisation, despite the uncertainties about how the new firms will be regulated at the federal level.

The São Paulo government has spent the past year preparing to unbuckle the state's highly integrated electricity companies into stand-alone generation, transmission and distribution companies. Given the necessary approval from the state assembly (expected in the next few months), the state energy secretary, David Zylbersztajn, aims to formalise this restructuring in time to start selling off individual companies in early 1997.

Mr Zylbersztajn accepts that it would be preferable to have the new federal regulations agreed before privatising parts of the São Paulo network. But he is confident that foreign investors will be prepared to bear some regulatory uncertainty in return for gaining access to such an enormous market. Eletropaulo, the main distributor for the city of São Paulo, supplies three times more electricity than Light and accounts for 23 per cent of Brazil's electricity consumption.

■ **The private sector:** by Jonathan Wheatley

Restructuring proves a painful process

A new market for consumer goods is emerging but many industries find it hard to cope with more competition

Brazil's private sector will remember the 1990s as a time of strenuous and often painful readjustment. Falling inflation and the move from a protected, state-led economy to one characterised by open markets and competition have allowed some industries to flourish. For others, the changes have led to cutbacks and closures.

"We are seeing a transformation of Brazilian society," says Luiz Fernando Furian, a director of the São Paulo state industry federation, Fiesp. "New consumers are coming to the market for the first time, but there is also a lot of suffering."

Industries that have fared better are those catering to the mass market. For years before the economic reform plan of July 1994, high inflation had been stealing purchasing power from the pockets of ordinary Brazilians. When inflation fell, spending on all kinds of "popular" goods took off.

One example is the beer industry, where consumption rose by two-fifths between 1993 and 1994. Another is chewing gum: in dollar terms, sales rose by 72 per cent last year. Bigger ticket goods have also benefited. Many Brazilians who for years dreamed of owning a washing machine can now afford one. In February, sales of Brazilian-made white goods were more than 140 per cent higher than in January 1994. Sales of audio-visual goods had more than tripled.

"These industries, though,

have natural advantages. In a vast country where transport is often precarious, mass-market goods can only succeed if they have national distribution. It is difficult for new entrants to compete - hence the associations formed last year by Anhauser-Busch and Miller Brewing with, respectively, Antarctica and Brahma, Brazil's two biggest brewers. Household electrical goods cater to years of unsatisfied demand as do so-called "popular" cars, no-frills models which take 80 per cent of a market that has doubled in size in the past five years.

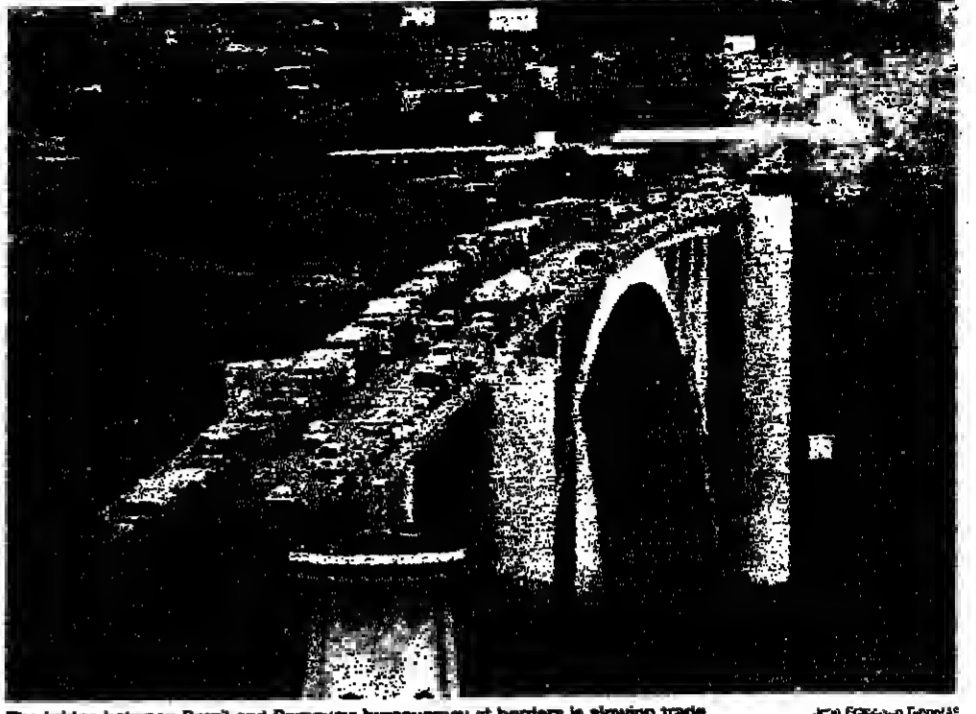
Other industries were less prepared to withstand the flood of imports caused by falling trade barriers and rising consumption. Among the hardest hit are two traditional stalwarts of Brazil's economy, footwear and textiles.

For manufacturers in these sectors, the removal of trade

barriers has been doubly cruel. For more than two decades, government policy was to protect domestic industry with tariffs that made imports extremely expensive. With little competition, manufacturers were under no pressure to invest in modern machinery. But even those who wanted to were deterred by import duties that put foreign-made capital goods beyond their reach.

Ill-prepared to face foreign imports, many businesses have failed. Brazil's textiles industry consisted of 800 manufacturers in 1994. Since then a quarter of them have closed with the loss of more than 15,000 jobs. The government responded by raising tariffs again and, last month, by putting tough quotas on cheap imports from Asia. Manufacturers say the measures do not go far enough.

Some companies have invested, but their ability to do so is restricted by the cost of



The bridge between Brazil and Paraguay; bureaucracy at borders is slowing trade

domestic credit, which the government has kept high as part of its anti-inflationary strategy. As a result, most investment in manufacturing is by Brazilian companies with sufficient standing to raise capital on

international markets and by multinational companies. The central bank says foreign direct investment in Brazil will double this year to \$87bn.

The lion's share will go to the auto industry. The four multinationals long established in Brazil - Volkswagen, Fiat, General Motors and Ford - are investing in new production lines while a string of European and Asian manufacturers have announced or are preparing to announce investments.

They are attracted by the potential of Brazil's expanding market and by the Mercosur customs union formed by Brazil, Argentina, Paraguay and Uruguay. The agreement has boosted regional trade and allowed many companies to treat the four countries as a single market.

Auto manufacturers have been able to intensify operations in Mercosur, concentrating production of individual models in Brazil or Argentina for export to the rest of the union. Other companies have followed similar strategies: food processor Sadia recently transferred operational control of its Argentine division to its headquarters in São Paulo. Nevertheless, persistent bureaucracy at national borders means it will be some years before Mercosur operates as a genuine single market.

With production set to rise from 1.6m vehicles last year to 2m by the end of the decade, the outlook is not all bleak. But the industry can already produce 2.5m vehicles annually. As the average age of vehicles drops the market for replacement parts will shrink and longer warranties will demand longer-lasting parts. Big Brazilian manufacturers such as Iochpe-Maxion, Cofap, Metal Leve and Marcopolo will probably survive in the tougher climate. But for many, Brazil's increasing involvement in the global economy will mean the end of the road.

Jonathan Wheatley

CASE STUDY Automotive components

Facing the end of the road

While auto makers prepare for expansion, their suppliers face drastic restructuring. More than 1,000 components manufacturers operate in Brazil. Analysts expect that number to fall to about 200 in the next few years.

Some reduction will come from mergers and acquisitions but many small manufacturers face extinction. Of the businesses that survive, only a handful will be leading companies and they will be operating on a reduced scale. David Wheeler, an analyst at brokerage Bear Stearns in São Paulo, says many components makers will see sales down by between 30 and 50 per cent this year.

"The industry is going through its second big change this decade," he says.

The first phase was one of expansion in line with the growth in auto production. The components industry association, Sidipecas, says sales last year were worth \$18.5m, up from \$12.2m in 1990.

But two factors are forcing manufacturers to cut back. One is falling sales of agricultural equipment resulting from a credit crisis among farmers. A longer-term change is the trend in the world auto industry towards standardisation and global sourcing.

Combined with falling trade barriers and an industry agreement within the Mercosur customs union, this means manufacturers will rely more on overseas suppliers and on big local

companies operating in partnership with multinational groups.

With production set to rise from 1.6m vehicles last year to 2m by the end of the decade, the outlook is not all bleak. But the industry can already produce 2.5m vehicles annually. As the average age of vehicles drops the market for replacement parts will shrink and longer warranties will demand longer-lasting parts. Big Brazilian manufacturers such as Iochpe-Maxion, Cofap, Metal Leve and Marcopolo will probably survive in the tougher climate. But for many, Brazil's increasing involvement in the global economy will mean the end of the road.

Jonathan Wheatley

■ **The regions:** by Leslie Crawford

The great gulf widens further

Development policies have failed to tackle the growing gap between the poor north-east and the rich south

"There is a Berlin Wall dividing the north-east from the rest of Brazil," Cleo Luccena, minister for regional policies in Brasília, recently told the weekly magazine *Veja*.

His job is to tear this wall down. But to do so, Mr Luccena must first address the question of why 35 years of federal development policies have failed to level the inequalities which divide the poor north-east from the rich south of Brazil.

Development policies have failed to tackle the growing gap between the poor north-east and the rich south

Even in death the regions were worlds apart: while preventable infectious diseases remained the main killers in the north-east, southern Brazil-

nians were more likely to die from first world ills such as cancer or heart failure.

Brazil has a specific federal development agency for the north-east, which has invested R\$5.6bn in the region since its creation in 1959, according to Mr Luccena's calculations. Over the years, however, the agency, called Sudene, earned a reputation for corruption, inefficiency, and finally irrelevance.

"The whole rationale for having agencies like Sudene needs to be rethought," says Rodolpho Tourinho, finance secretary for the state of Bahia.

"Tax holidays and other fiscal incentives are no longer enough to attract investments to the north-east. We need new policies to foster development."

Past governments offered generous incentives in order to persuade companies to move to the north-east. In the 1970s, the decade of Brazil's "economic miracle", the state also played a leading role in the industrialisation of less-developed regions, building, for example, Brazil's biggest petrochemical complex outside Salvador, in Bahia.

Federal government deficits in the 1990s make it less likely that the state will continue acting as a catalyst for the development of the north-east. In any case, past policies have been discredited for concentrating wealth in the hands of a few industrialists and commercial farmers.

Critics say the old model of development encouraged the wrong kind of industry to locate in the north-east: petrochemicals, aluminium, paper and pulp plants and metal refineries are all capital intensive. They could not solve the region's employment problem, or raise living standards of rural and urban poor.

Even when federal government projects are designed to integrate subsistence farmers into the formal economy, the effort often stumbles upon the lack of formal education in rural communities.

Irrigation projects along the River São Francisco have transformed pockets of the north-east's arid interior into thriving centres of agricultural production.

But those responsible for the transformation are, in the main, commercial farmers from the southern part of Brazil.

Local farmers, with little experience in marketing produce or negotiating bank finance, have been less successful with their irrigated plots.

Continued on page 5

Tocantins State - A new frontier for investments

Linking the domestic economy with the international market, Tocantins offers excellent business opportunities to the private initiatives in key areas such as:

FORESTRY, REFORESTATION, MINING, TOURISM, ELECTRICITY GENERATION, AGRI-BUSINESS (SOYBEAN, CORN AND TROPICAL FRUIT INDUSTRIES).

The Tocantins economy is based primarily on extensive cattle ranching. In some regions, such as the south-center and, south-east, we can see enormous expansion of commercial agriculture, and the intensive use of modern techniques and equipment.

The important factors enabling the improvement of agriculture and cattle ranching are:

- Plentiful water resources; a well defined rainy season and good water level during the dry season;
- The largest expanse of land fit for cultivation in the world; extending over 1.2 million hectares along the Juvaés river valley;

- Soil and climatic conditions favorable for agricultural production including tropical and amazonian fruits, spices and extracts, vegetable dye, as the "urucum" which has a promising international market giving the European control of synthetic dyes.
- Easy access to international markets through competitive routes following the completion of the "Araguaia-Tocantins" waterway.

EXPORTS

The Processing and Exportation Zone - ZPE is a regional economical development instrument that encourage the establishment of organizations exclusively dedicated to exports through deferred treatment on taxes.

The ZPE's prime duty is to add value to the abundant raw material from ranching, agriculture, vegetable, and mineral extracting activities.

TOURISM

The State of Tocantins stands out from the national context of Eco-tourism through the extraordinary beauty of its landscape, fauna and flora, with good conditions for the establishment of theme parks.

The "Araguaia" and "Tocantins" rivers flow almost parallel over a considerable distance, creating an exotic landscape and beaches at several towns which offer great potential for tourism development.

Geographically well located, the State of Tocantins has excellent hydro potential around 6.000 MW. The "Lageado" power plant alone, due to start construction in 1997, will offer 1.000 MW. The completion of the dam will create a bridge crossing the Tocantins river, allows commercial navigation, and creates a wonderful lake on the edge of the capital city Palmas.

Secretary of Industry Commerce and Tourism
 Rua ACSE 1 - Cj. 4 Lote 10 - Ed. Jamil Rezende - 2º andar
 CEP: 77100-000 - Palmas - Tocantins - Brazil
 Tel: (55-63) 215-2757 Facsimile: (55-63) 215-1481

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IN BRIEF

Rhône-Poulenc set for US disposals

Rhône-Poulenc, the French chemicals company, is set to announce the sale of US drugs businesses worth more than FF8bn (\$192m), as part of a FF10bn programme of disposals. Page 17

Enxuj to quit as Repsol chief
Mr Oscar Enxuj is due to resign as chief executive of Repsol tomorrow, after the Spanish energy company holds its annual meeting, to be replaced by Mr Alfonso Cortina, chairman of Portland Valderrivas, the cement company. Page 16

Iri in the black but warns on debt
Iri, the Italian state holding company, reported its first profit at group level since 1990 thanks to continuing disposals which raised about L1,400bn (\$935m). But it again warned that if it failed to sell its stake in Stet, the telecoms holding company, this year, it would miss European Commission targets on debt reduction. Page 16

TDK sells US chip unit for \$575m
Texas Instruments of the US, one of the world's leading semiconductor makers, has acquired Silicon Systems (SSI), the US semiconductor arm of Japan's TDK, for \$575m. Page 19

Rascal to reorganise data products side
A 21 per cent rise in annual profits at Rascal Electronics was marred by the announcement that the UK data communications, telecoms and electronics group is to restructure its data products business at a cost of £20m (\$30.4m). Page 21

India expects tea prices to stay firm
India, the world's largest producer of tea, expects prices of the commodity to remain firm this year, in spite of record production. Page 22

Companies in this issue

Table listing various companies and their market performance with columns for company name and numerical values.

Market Statistics

Table providing market statistics including FTSE All-Share, DAX, Nikkei, etc., with their respective values and percentage changes.

Chief price changes yesterday

Table showing chief price changes for various stock indices and currencies such as the Dow Jones, Nikkei, and the Dollar.

Saab to manufacture three models

By Hugh Carnegie in Stockholm

Saab Automobile, the struggling Swedish carmaker managed and half-owned by General Motors, is to produce three models for the first time and revamp its US sales operation along the lines of GM's innovative Saturn subsidiary.

year to 150,000 by 2000. Previously, the new car was billed as a replacement for the 900. The company also announced the appointment of Mr Joel Manby, a senior executive at Saturn Corporation, as head of its operations in the US.

coverage and model their organisation on Saturn distribution, sales and servicing techniques. The target was to raise annual sales in the US from 25,000 to 40,000 by the end of the decade.

they have jointly invested to date. Mr Butler-Wheelhouse said in an interview the new car would be added to the Saab range above the present top-of-the-line 900.

Wheelhouse said Saab wanted to take advantage of Saturn's training and support systems to sharpen its sales effort. He said co-operation could develop in all "behind the scenes" functions and he held out the possibility that some Saturn dealers could also become Saab dealers.

Swissair and BAA lift bids for Alders

By Christopher Brown-Hume in London

Swissair yesterday appeared to be heading for victory in its bid to buy UK airports operator BAA for the duty-free operations of Alders, the UK retail group.

BBA may scupper Varsity deal

By Tim Burt in London

BBA Group, the British engineering company yesterday threatened to scupper the £3.2bn (\$4.8bn) merger between Lucas Industries and Varsity Corporation of the US by mounting a hostile bid for the UK automotive and aerospace manufacturer.



George Simpson of Lucas, left, and Victor Rice of Varsity, bottom, attacked the logic of a BBA bid while BBA's Roberto Quarta, top, said Lucas and Varsity had overstated the benefits of their tie-up

The company, which has been considering a Lucas bid for more than a year, was forced to clarify its intentions by the Takeover Panel, which regulates and monitors takeovers in the UK, following intense market speculation that it was weighing up an offer of about £1.5bn.

arm, one of the world's top three brakepad manufacturers. However, Mr Simpson rejected that argument, pointing out that other component suppliers such as Robert Bosch of Germany regarded friction products as a low-value commodity business.

Some analysts suggested the uncertainty over the future of Lucas would encourage other bidders to emerge. But Siemens, regarded as a possible white knight, said it had no interest in joining the fray.

Investment bankers managing the issue said the idea of partial payment had been borrowed from British privatisations, but the details had had to be adjusted. In the UK, the government has held on to the partly-paid shares, but in Australian law, investors would have been able to capital gains tax when they paid up the final instalment.

Alders said it "looked favourably" on Swissair's £160m (\$243m) offer, which was made after BAA raised its offer from £130m to £145m and said it would not go above. But Alders stopped short of formally recommending the offer to shareholders pending clarification of several issues. "We have to be confident that shareholders will approve the offer before we put it to them," said Alders.

One BBA shareholder praised the group's return to profits under Mr Roberto Quarta, chief executive, but said: "This deal may be too big to swallow; it's risky and it lacks clear focus."

Mr Quarta told shareholders that Lucas and Varsity had overstated the benefits of their tie-up. He claimed there was more synergy by adding Lucas's brakes business to its friction products

Mr Des Wilson, of BAA, said: "We are not going to raise our offer, but we are examining a number of options to press on with our strategy of developing our worldwide duty-free business."

Daimler-Benz Aerospace (Dasa) yesterday used a legal manoeuvre to override objections from shareholders in its loss-making Dornier aircraft subsidiary to sign over control to Fairchild Aircraft Holding of the US.

holders at which most family-owned shares were voted in favour of the deal, though a handful voted against. Because of the legal terms under which Daimler-Benz took control of Dornier in the late 1980s - it now owns 57.5 per cent - the Dornier family in theory has a veto right over important decisions concerning the company.

Dasa said it had stressed the need for job security and the continuation of the present production programme at the start of negotiations with Fairchild. Fairchild had made profits since 1991, despite deteriorating market conditions, Dasa said.

Australian investors who can benefit from the attached tax credits. Mr David Murray, Commonwealth's managing director, said his was "one of the few government banks in the world to have come out of state ownership in such terrific shape".

It is widely presumed that BAA will move to cancel the management contracts it has with Alders at seven UK airports, including Heathrow and Gatwick, and set up its own duty-free operations. Alders also has duty-free operations in Europe, North America and Australasia.

Dasa announced this "detour" solution last week and has threatened minority shareholders with a DM719m (\$479m) lawsuit if a deal was blocked. It said yesterday the veto also went against shareholders' responsibility for Dornier's well-being.

Dornier will have a 20 per cent stake in the new holding company. Dasa said the deal substantially improved the chances for continued success of the Dornier 289 regional 39-seater aircraft and this for the survival of the Oberpfaffenhofen plant near Munich, which employs about 2,200 people.

No financial details were given for the Fairchild transaction through which Daimler-Benz aims to solve one of its trickiest remaining problems.

That led analysts to cut profits forecasts for 1996-97 to about A\$1.1bn but because of the share buy-back, earnings per share are still expected to grow nearly 6 per cent to A\$1.25.

Swissair has said it wants to build up its duty-free activities through its Nuance subsidiary, partly to reduce its dependence on its core airline business.

Directors of Danzas, the Swiss freight forwarder, are resisting attempts by Sir Michael Edwards, former chairman of British Leyland, and Mr Nicholas Berry, a UK investor, to join the board to help improve the company's lacklustre performance.

But there have been signs, notably in the battle between Union Bank of Switzerland and its biggest shareholder, Mr Martin Ebner, that investors have become keener to exert influence. Mr Berry, chairman of Barlows, the UK property company, and of specialist publisher Mintel, said he and Sir Michael would put themselves forward as Danzas's annual meeting on June 14.

Despite the opposition of the current board, Mr Berry said that he expected significant support from discontented shareholders.

Bank officials are now embarking on a 2½-week roadshow in the eastern Asia, Europe and North America in preparation for the institutional offering July 9-12. The domestic public offering and the entitlement offer to existing shareholders will run from June 17 to July 5.

Analysts say it is paying a hefty price for the Alders business, given the likely loss of the BAA management contracts and a European Union threat to scrap duty-free sales from 1999. Intra-European sales account for a third of the Alders duty-free business, which last year made operating profits after exceptional items of £11.7m.

Swiss investors have traditionally left managements to run their companies unchallenged.

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Swiss investors have traditionally left managements to run their companies unchallenged.

Large advertisement for SAMSUNG, SIEMENS & FUJITSU with the slogan 'Share something special THE NORTH OF ENGLAND' and contact information for Northern Development Company.

COMPANIES AND FINANCE: EUROPE

Saab approaches crossroads after six-year overhaul

Swedish carmaker's tie-up with GM's Saturn unit is a milestone in its relationship with its US part-owner

Keith Butler-Wheelhouse, the chief executive of Saab Automobile, jokes that the Swedish carmaker is "a wart on the tail of the dog" because it is such a small part of the empire of General Motors of the US, which manages and half-owns Saab.

In recent years the "wart" has caused some pain, running up almost SKr9bn (\$1.34bn) in net losses since GM bought a half-share in 1989 and fuelling speculation among motor industry watchers that Saab is fighting a losing battle for long-term viability.

Late last year, GM's Swedish co-owner, the Wallenberg group investor, publicly expressed concern about Saab's future as it tumbled back into the red. Although Saab returned a small full-year profit in 1995, it ran up losses of SKr333m in the first quarter of this year as car sales fell 12 per cent.

But Saab's British-born chief is anxious to rebut the impression that Saab's survival is in question. "We are a boutique, yes," says Mr Butler-Wheelhouse. "But there is still a place for us in the world market."

Saab adds, still fulfils the promise for GM of winning customers willing to pay a premium for a high-priced, European luxury marque which is not otherwise available in the GM range of models.

"This brand appeals to different customers and we can't replace those customers [with

other GM brands]," he says.

In fact, Mr Butler-Wheelhouse argues, Saab is only just reaching what he calls the crossroads in its six-year overhaul by GM. To date, the company has slashed staff and introduced lean manufacturing techniques and is producing its annual output of 100,000 cars with half the workforce it needed for the same numbers in 1990.

It has made heavy cost savings by integrating component purchasing and manufacturing with GM companies. Crucially for a company competing with the likes of BMW and Mercedes, it is also receiving high quality ratings after dismal rankings in the past.

"Net of exchange rate fluctuations, we are basically breaking even now," says Mr Butler-Wheelhouse. "The key to the future is to sell a lot more cars."

After almost four years in

charge, Mr Butler-Wheelhouse is increasingly tipped to be moved on by GM soon. But he has set in train two developments crucial to Saab's quest to "sell a lot more cars".

The company is to launch a new model early next year and is setting out to revamp its sales and distribution network with the aim of increasing its volumes by 50 per cent by the end of the decade.

An important step is being taken in the US - Saab's biggest market - where Saab is aiming to capitalise on the success of GM's Saturn subsidiary, which has built up strong sales and high customer loyalty in recent years.

Saab has hired Mr Joel Manby, a senior Saturn executive, as its US chief and says more Saturn executives will be brought in to shake up the Saab US operations.

A vital part of the Saab strategy is to retain its individual brand identity. But Mr Butler-Wheelhouse says it now intends to copy Saturn's sales, distribution and servicing techniques and eventually develop closer co-operation "behind the scenes" between the two operations.

Saab's 300-strong string of dealers in the US is to be overhauled to achieve a broader geographical spread - its sales are concentrated in the north-east, the west and the Chicago area - and to shadow more closely the Saturn network.

In time, Mr Butler-Wheel-

house says, some Saturn dealers may take on Saab dealerships.

The overall aim is to raise US sales from 25,500 last year to 40,000 a year by 2000.

Saab is also to focus its sales efforts on the UK, France, Germany, Italy and Japan, which it identifies as the top potential growth markets for its class of cars.

Closer co-ordination with GM networks in these countries is also on the cards. One example cited by Mr Butler-Wheelhouse is fleet sales in the UK, where Saab could be a top-of-the-line complement to Vauxhall's range.

house says, some Saturn dealers

The overall aim is to raise

Saab is also to focus its sales

Closer co-ordination with

house says, some Saturn dealers

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Saab is also to focus its sales

Closer co-ordination with

house says, some Saturn dealers



Keith Butler-Wheelhouse: 'still a place for us in world market'

cedes E-class and BMW 5-series.

It will include an estate-car version to be launched in 1998 - the first Saab estate since the 1960s.

Motor industry analysts have argued that Saab needs both bigger volumes and enhanced exploitation of its links with GM to survive. But the company is attempting to achieve these against a background of weakening sales and tough price pressure.

"It should be possible to secure a niche of the size Saab wants. The question is whether it can be profitable," says Mr Nigel Griffiths of DRI McGraw Hill in London.

Both GM and Investor evidently believe it can. Despite the clear reservations it expressed late last year, Investor has since restated its commitment to Saab and both owners are thrashing out the terms of a new refinancing package to carry the company through its next stage of development.

No details of the size or shape of the refinancing have yet been revealed, but Mr Butler-Wheelhouse says they are based on the assumption that Saab will have established sustainable profitability by the turn of the century.

As the owners have already jointly stumped up SKr6bn in earlier capital injections, the pressure on Saab finally to achieve that target is great.

Hugh Carnegie

Year	Profit/(loss)	Car sales
1990	SKr1,340m	100,000
1991	(224 bn)	67,800
1992	(219 bn)	65,600
1993	(137 bn)	73,800
1994	702 m	88,700
1995	275 m	96,700
1996*	833 m	122,400

* 1st quarter Source: Company reports

Fanjul due to step down tomorrow as Repsol chief

By Tom Burns in Madrid

Mr Oscar Fanjul is due to resign tomorrow as chief executive of Repsol after the Spanish energy company holds its annual meeting, to be replaced by Mr Alfonso Cortina, chairman of the cement company, Portland Valderrivas.

Mr Cortina will join Repsol's board today.

The change at Repsol, which is 10 per cent state-owned, follows the formation of a centre-right government last month and is one of the most controversial of those in progress in leading corporations linked to the public sector.

Mr Fanjul's departure has caused concern among international institutions, which represent some 32 per cent of the oil, gas and chemical group's equity.

Critics of the move say that Mr Fanjul has been responsible for the corporation's successful expansion over the past decade and that he has fallen victim to the machinations of Banco Bilbao Vizcaya, the big domestic bank which owns 7 per cent of Repsol's shares.

Mr Cortina became a mem-

ber of BBV's board in October last year, after he invested about Pta3bn (\$23.2m) to become the bank's largest individual shareholder with some 0.3 per cent of its equity.

He will join BBV's chairman, Mr Emilio Ybarra, who was already a Repsol director, on the energy group's board.

BBV is expected to gain another Repsol board post tomorrow, when six directors, including Mr Fanjul, who were appointed by the previous government, are due to resign from the 16-member board.

The boardroom reshuffle will allow La Caixa, the Barcelona-based savings bank which has recently acquired 3 per cent of Repsol, to appoint two directors.

Pemex, the Mexican energy group which controls some 5 per cent of Repsol's stock, will increase its board nominees from one to two.

A similar arrangement among core shareholders and the government will usher in a new chairman at Telefonica, the telecoms group which is 30 per cent state-owned.

BBV, La Caixa and Argenta, the partially privatised banking group, together

control close to 10 per cent of Telefonica's equity and they are expected to back the appointment of Mr Juan Villalonga in place of Mr Cándido Velázquez.

Mr Villalonga, a merchant banker, is a close friend of prime minister Mr José María Aznar, the leader of the Popular party.

He left CS First Boston last year to join Bankers Trust as the senior executive of its office in Spain.

The succession appears less smooth at Caja Madrid, the biggest domestic savings bank after La Caixa, where the board, under the guideline for savings banks, is made up of representatives of all political parties, trade unions and local institutions.

A majority of the board is said to oppose the government's plan to replace current chairman, Mr Jaime Terceiro, with Mr Miguel Blesa, also a member of Mr Aznar's circle of close friends and the Popular party's representative on the Caja board.

Mr Feliciano Fuster, the chairman of Endesa, the electricity generator which is 66 per cent state-owned, said yes-



Oscar Fanjul: institutions are concerned at his departure

terday he had offered his resignation to the new government and still did not know whether it had been accepted.

Mr Fuster is expected to stay on for the time being in order to steer through a disposal of Endesa shares later this year.

Iri in the black but warns on debt level

By Andrew Hill in Milan

Iri, the Italian state holding company, yesterday reported its first profit at group level since 1990 thanks to continuing disposals which raised about L1,400bn (\$906m).

But the group again warned that if it failed to sell its stake in Stet, the telecoms holding company, this year it would miss European Commission targets on debt reduction.

The state holding company also postponed approval of Alitalia's plan for a L3,000bn capital increase over the next five years, because unions had not yet approved the drastic restructuring proposed by the state airline's new management.

Iri reported a consolidated group profit of L638bn after tax for 1995, compared with the 1994 loss of L854bn. After minority interests, Iri's share of the subsidiaries' results was a loss of L1,193bn, against L1,750bn in 1994. Operating profit at the group rose from L8,911bn to L9,243bn.

Parent company losses also narrowed to L245bn, compared with L1,471bn in 1994, but debt remained high. At parent company level, net debt was

L22,456bn at the end of 1995, against L23,090bn a year earlier. In 1995, the Italian government committed Iri to cut parent company debt to about L4,600bn by the end of this year.

Although Iri also intends this year to sell its shares in Autostrade, the toll-road company, only the sale of Stet would raise sufficient money to reach the target. The new government has indicated in the past few days that although the privatisation is a priority, it could take time to establish the regulatory mechanism for the sector.

At group level, Iri was carrying some L56,100m of debt at end-1995, L4,200bn less than at the end of 1994.

Iri, which owns 90 per cent of Alitalia, said it had decided not to attend the airline's June 10 shareholder meeting to approve the planned capital increase.

That means approval of the plan - which envisages an initial L1,500bn capital injection from Iri - will slip to June 28 at the earliest. To date, only Alitalia managers have approved the restructuring, which will involve almost 3,000 job losses.

NEWS DIGEST

VW lifts market share in W Europe

Volkswagen, the German vehicles group, reported a 14.4 per cent rise in unit sales for the five months to May, because of strong demand in western Europe outside Germany. Europe's largest carmaker said its west European market share had risen from 16.5 per cent to 17 per cent. West European unit sales outside Germany surged 21.7 per cent, while in Germany unit sales rose 1.9 per cent to 426,000 vehicles.

At the company's annual meeting, Mr Ferdinand Piëch, chairman, said "the good start in 1996 notwithstanding, the Volkswagen group has not yet achieved its financial aims", promising further productivity improvements.

Yesterday's meeting was preoccupied to a large extent with VW's dispute with General Motors, the US motor group, over allegations that VW had engaged in industrial espionage. VW recently launched a defamation suit under German law to stop GM making what it considers defamatory claims, while GM brought a civil suit in a US court. Mr Klaus Liesen, chairman of the supervisory board, yesterday reiterated that VW had never been in possession of internal GM documents. A German prosecutor is to decide later in the year whether to bring criminal charges in connection with the allegations.

Wolfgang Stinchau, Hamburg

Sol Melia drops US plan

Spain's Sol Melia hotel group, which has interests in Cuba, has cancelled the US part of its \$275m international flotation because of a new US law which attempts to ward off investment on the island, bankers involved in the transaction said yesterday.

It is understood that UBS, the bank arranging the transaction, has decided not to proceed with plans to sell the equities into the US because of the problems which could arise from the legislation and will concentrate on placing the shares with European investors instead.

US banks involved in the offering are also believed to have promised for the US tranche to be cancelled for fear of becoming tainted in the eyes of the US authorities. Part of the so-called Helms-Burton law seeks to refuse US visas to senior executives of foreign companies considered to have trafficked with property expropriated by the Cuban government from US nationals.

Mr Jaime Puig de la Bellacasa, Sol Melia's deputy financial director, told the Financial Times last week that although the company's lawyers had given the all-clear, Sol Melia was prepared to abandon plans to market the shares to US investors.

Antonia Shorpe

SA Breweries in Polish move

South African Breweries, the brewing and hotels group, has become a strategic investor in Poland's Lech brewery in Poznan in partnership with Euro Agro Centrum, a local food processing company. SAB already owns breweries in Hungary and Romania. The South African company, backed by EAC, is expected to win a tender for a controlling stake in the state-owned Tychy brewery, Poland's second-largest producer which controls a 12 per cent share of the market.

The Lech brewery was privatised two years ago through a sale to EAC which is owned by Mr Jan Kulczyk, a local entrepreneur. EAC then promised to retain a controlling interest in Lech until the end of next year. However, SAB now has a third of the places on the brewer's supervisory board and has executives in key positions at the company.

SAB won control of a 15 per cent stake in Lech by buying shares in an offshore company owned by Mr Kulczyk which currently holds 43 per cent of the brewery's equity. Terms of the sale which took place last autumn have not been disclosed. EAC originally paid 30m zloty (\$7.5m) in September 1993 for a 40 per cent stake in Lech and promised to invest \$65m in the brewery.

Christopher Bobinski, Warsaw

Greeks buy Turkish mine stake

Silver & Baryte Ores Mining, the Greek perlite and bentonite producer, has acquired a 49 per cent stake in Pabalk, a Turkish mining company, as part of its strategy of diversifying sources for its perlite processing operations. The move is unusual for a Greek company as Greek-Turkish political differences tend to discourage cross-border investment.

Silver & Baryte said the \$1m investment was made through the group's German subsidiary, S&B Holding. Pabalk produces around 30,000 tonnes a year of high-quality perlite at mines in the Marmara region near Istanbul. The Greek company has also bought a 50 per cent stake in Sarda, a perlite producer in Sardinia for about \$1.5m. Sarda produces about 65,000 tonnes yearly of raw perlite.

Silver & Baryte is Europe's largest producer of perlite, mainly used as an insulating material. Its pre-tax profits for 1995 rose 58 per cent to Dr3.1bn on a 40 per cent gain in turnover to Dr13.3 bn (\$65m).

Kerri Hope, Athens

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COMPANIES AND FINANCE: EUROPE

Rhône-Poulenc set for disposals worth FF1bn

By Jenny Luesby

Rhône-Poulenc, the French chemicals company, is set to announce the sale of US drugs businesses worth more than FF1bn (\$193.4m), as part of a FF1.5bn programme of disposals aimed at halving the group's unwieldy debt burden.

Mr Igor Landau, head of the group's health business, said this week "a major sale" would shortly be announced on the drugs side.

His comments reignited speculation that the group might be considering selling part of its 88 per cent stake in drugs company Rhône-Poulenc Rorer.

Mr Landau said the group is planning to reduce debt following the £1.5bn (\$2.8m) acquisition of UK drugs business Fisons.

However, the group is poised to announce the sale of much of the US drugs business acquired with Fisons.

Rhône-Poulenc has said it planned to halve its gearing from 72 per cent within two years through drugs and chemicals disposals and the sale of its stake in Société Générale.

So far, this strategy has raised FF1.5bn on the chemicals side, with the disposal of the group's US soda ash business and its plastic films operation. The next sale will be of drugs businesses in the US.

According to one pharmaceutical analyst, the sale is unlikely to include the respiratory drugs that account for

two-thirds of Fisons' US drug sales. "This area is a core business for RPR, and they have made clear they intend to hang on to it," he said.

However, nearly all of the businesses acquired by Fisons in 1988 when it bought US drugs company Penwalt for \$400m are set to be sold.

The main brands involved are Iomamin, an appetite suppressant, and Zaroxolon, a diuretic for heart failure and kidney disease, with combined sales last year of \$43m. But the disposal is also likely to include smaller branded drugs, such as Americaine, Microx and Hylorol, as well as assorted cough and cold treatments, with combined sales of around \$50m.

Analysts expect the disposal to raise between FF1bn and FF1.4bn.

Meanwhile, Rhône-Poulenc remains emphatic that it has no plans to reduce its stake in RPR, or to change the structure of the group. Analysts say they, too, would be surprised if such a sale were announced in the short term.

"It will not come as part of the current drive to reduce debt," said one, "but it is likely to come eventually."

The group is, however, pursuing further centralisation of its operations. In this vein, it announced yesterday that it will be cutting between 400 and 450 jobs at its corporate headquarters in Paris.

Eridania team to buy Navigation Mixte unit

By Andrew Jack in Paris

Navigation Mixte, the conglomerate which was taken over by French financial group Paribas earlier this year, yesterday announced the sale of its subsidiary Compagnie Française de Sacricerie for FF2.55bn (\$350m).

The purchase by a group of leading rival sugar producers in France co-ordinated by Eridania Béghin-Say, the Franco-Italian agro-food group, removes some fears within the country that CFS, which holds 12 per cent of the domestic market, might otherwise have been taken over by a foreign buyer.

The sale also marks the first significant step towards a



André Lévy-Lang holds 97.66 per cent of Mixte shares

restructuring and possible break-up of Navigation Mixte, which owns a range of assets including banking, insurance, tuna canning, transport, weighing instruments and safes.

Subject to regulatory approval, Eridania Béghin-Say will buy CFS and then sell on 53 per cent of it one-third to Générale Sucrière, a subsidiary of Saint-Louis, and the remaining two-thirds to five agricultural co-operatives.

The deal reinforces Eridania's position as the largest sugar producer in France. It plans to retain two of CFS's five factories, and sell two to the co-operatives, and the remaining one to Générale Sucrière.

Until the announcement of the sale yesterday, Navigation Mixte, which reported losses of FF1.5bn for its 1995 financial year, had sold little except Champagne de Venoge, a small champagne producer, and had pledged to dispose of Sidhet, which owns a hotel in Tunisia.

The move follows months of reflection by Mr André Lanois, Mixte's chairman, who was appointed by Paribas in discussion with other large shareholders in the conglomerate after they unexpectedly dismissed his predecessor Mr Marc Fournier at the annual general meeting last year.

Mr André Lévy-Lang, Paribas' chairman, announced in March a full takeover for the group, and now holds 97.66 per cent of the shares.

The FF2.5bn cost of the bid is to be funded from Navigation's own resources, including FF30m in cash reserves.

Infostrada in deal with Autostrade

By Andrew Hill in Milan

Infostrada, the Olivetti-led telecoms joint venture, has reached a preliminary agreement to lease telephone lines from Autostrade, the Italian state-controlled operator of toll highways, as the race for alternative telecoms infrastructure gathers pace in Italy.

Potential competitors of Telecom Italia, Italy's state-controlled telecoms operator, have stepped up their search for rival networks ahead of next month's Europe-wide liberalisation of alternative infrastructure.

Olivetti, the information technology and telecoms group, said the accord with

Autostrade would allow Infostrada, a joint venture with Bell Atlantic of the US, to use the telecoms network as soon as EU directives on liberalisation had been implemented in Italy.

By July 1, the date for infrastructure liberalisation, Ferrovie dello Stato, the Italian state railway, will have to choose a partner to buy a majority stake in its 1,600km fibre-optic network, which has an estimated value of some L1,000m (\$47m).

FS said yesterday that Lazzarini and Farinella, which are handling the sale, had received expressions of interest from many of the principal operators, including Infostrada and

its allies France Télécom, Deutsche Telekom and Sprint of the US.

Italian newspapers have also reported that Nippon Telecom and Telephone of Japan, and AT&T of the US and its European partner Unisource are interested in the FS network.

"The aim of these new entrants is to be well-placed both to compete on fixed telecoms links, but also to bid to become the third mobile telephone company in Italy," said one telecoms executive.

The length of Italy and the inaccessibility of certain areas means that buying an existing network or leasing lines is the most sensible option for many new entrants.

Other owners of alternative infrastructure include Snam, the gas subsidiary of Eni, and Enel, the electricity producer.

Albacom, a joint venture between British Telecommunications and Banca Nazionale del Lavoro, linked up last month with Mediaset, the media company controlled by Mr Silvio Berlusconi, to exploit the telecoms potential of the group's television network.

Albacom has also been discussing possible links with Snam's network.

Olivetti said yesterday its agreement with Autostrade was not exclusive, and would complement Infostrada's existing network of communications nodes.

Two EDS executives to move to Origin

By Paul Taylor

Origin, the outsourcing subsidiary of Philips, has hired two senior European group executives from EDS, the US-based computer services group.

Mr Geoffrey Carroll and Mr Tom Butler are to become Origin's chief executive and chief operating officer, respectively, replacing Mr Hawk Cohen who is stepping down as chief executive to work on "special projects" for Philips Electronics.

Mr Butler, aged 44, was group executive for EDS operations in north Europe until he resigned unexpectedly three weeks ago. Mr Carroll held the same position for EDS in south Europe.

The two men were important members of the group's European team under Mr John Bateman, chief executive of EDS operations in Europe, who appointed them to the posts last August.

However, it is understood that both Mr Butler, who is British, and Mr Carroll, an American, had difficulty fitting into their new EDS roles which involved less "hands-on" work than their previous positions.

At Origin the two men will have the task of transforming a company which was viewed by many as an also-ran in the computer services sector until it won a £75m five-year contract from ICI earlier this year.

PT global offer heavily oversubscribed

By Peter Wise in Lisbon and Andrew Hill in Milan

A secondary global offering of 22 per cent of Portugal Telecom, which closes tomorrow, is heavily oversubscribed, while demand for a domestic retail offer of 11m shares has exceeded the shares available by nine times, brokers said yesterday.

Demand for the main tranche - 26.35m shares being sold directly to international institutional investors through a book-building system - was about three times more than the shares on offer, they said. This means an option to sell a further 3.95m shares to cover over-allocations is almost certain to be exercised.

Brokers are hoping for a discount to the market price

when Portugal fixes the offer price next Monday, the day before trading in the new shares begins. The shares closed at €23,694 yesterday, down almost 1 per cent on Tuesday's close and a fall of 4 per cent on their record high of €23,851, a week ago.

The shares have gained more than 28 per cent since an initial public offer of 27 per cent in June last year.

"Setting the price below €23,600 a share would create a favourable climate for future privatisations," one London-based analyst said. "It would be prejudicial for Portugal if the share price fell substantially after the offer."

Portugal Telecom will account for about 11.5 per cent of the total market capitalisation of the Lisbon stock market

after the offering - a post-floatation fall in the share price could bring the whole market down, a Lisbon broker said.

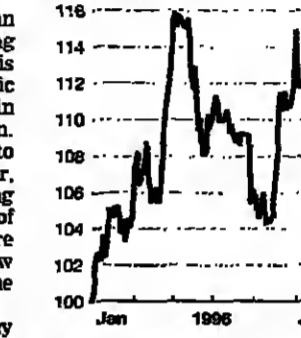
Meanwhile, Stet, the Italian telecommunications holding company, has confirmed it is interested in taking a strategic stake in Portugal Telecom in the next phase of privatisation.

Portugal Telecom is likely to decide on a strategic partner, expected to acquire a holding of 20-25 per cent, by the end of this year. This will require changing legislation to allow more than 49 per cent of the group to be privatised.

Stet, which is controlled by Iri, the Italian state holding company, said it had already acquired just under 0.5 per cent of Portugal Telecom through purchases on the open market. Deutsche Telekom and

other leading European telecommunications operators are also understood to have expressed interest.

Portugal Telecom Share price relative to the EVL 30 index



Hoechst pulls out of CFC substitutes

By Jenny Luesby

Hoechst, the German chemicals group, is pulling out of the market for CFC substitutes, with the sale of most of its fluorocarbon business to Solvay of Belgium.

The group, which had been using only half of the 30,000 tonnes of capacity at its main CFC-substitute plant in Frankfurt, said it "saw no likelihood of becoming one of the world's leading suppliers" in that market.

With the phasing out of CFC production under the Montreal protocol, many of the world's largest chemical companies have invested heavily in the development of CFC substitutes for use as refrigerants in industrial cooling systems.

However, even the three leading producers of CFC substitutes - Du Pont of the US, Elf Atochem of France, and ICI of the UK - reported a disappointing take-off in the market following the banning of CFC production in Europe in 1994 and the US in 1995.

Hoechst had developed five substitutes and begun producing three of them, with 4,000 tonnes of capacity at a new plant in Tarragona, Spain, in addition to its main plant and

a CFC recycling facility in Frankfurt.

However, with sales last year of DM130m (\$82m), the business failed to meet the performance targets necessary to make it a core activity, the group said.


Solvay, which will be drawing the Hoechst operation into a fluorocarbon business which had sales last year of DM370m, plans to lift the output in Frankfurt to the full 30,000 tonnes of capacity.

This coincides with reports of a surge in demand for CFC substitutes in the past six weeks.

In the US, sales of CFC substitutes doubled between April and May, according to Elf Atochem. Sales will be further boosted this autumn, when stocks of CFCs run out.

At the same time, smuggling of CFCs from developing countries, where production remains legal, has virtually ceased in the US following the imposition of strict penalties by customs authorities. It has also dropped sharply in Europe.


However, analysts say these factors are unlikely to prevent further consolidation in a sector that remains overcrowded.



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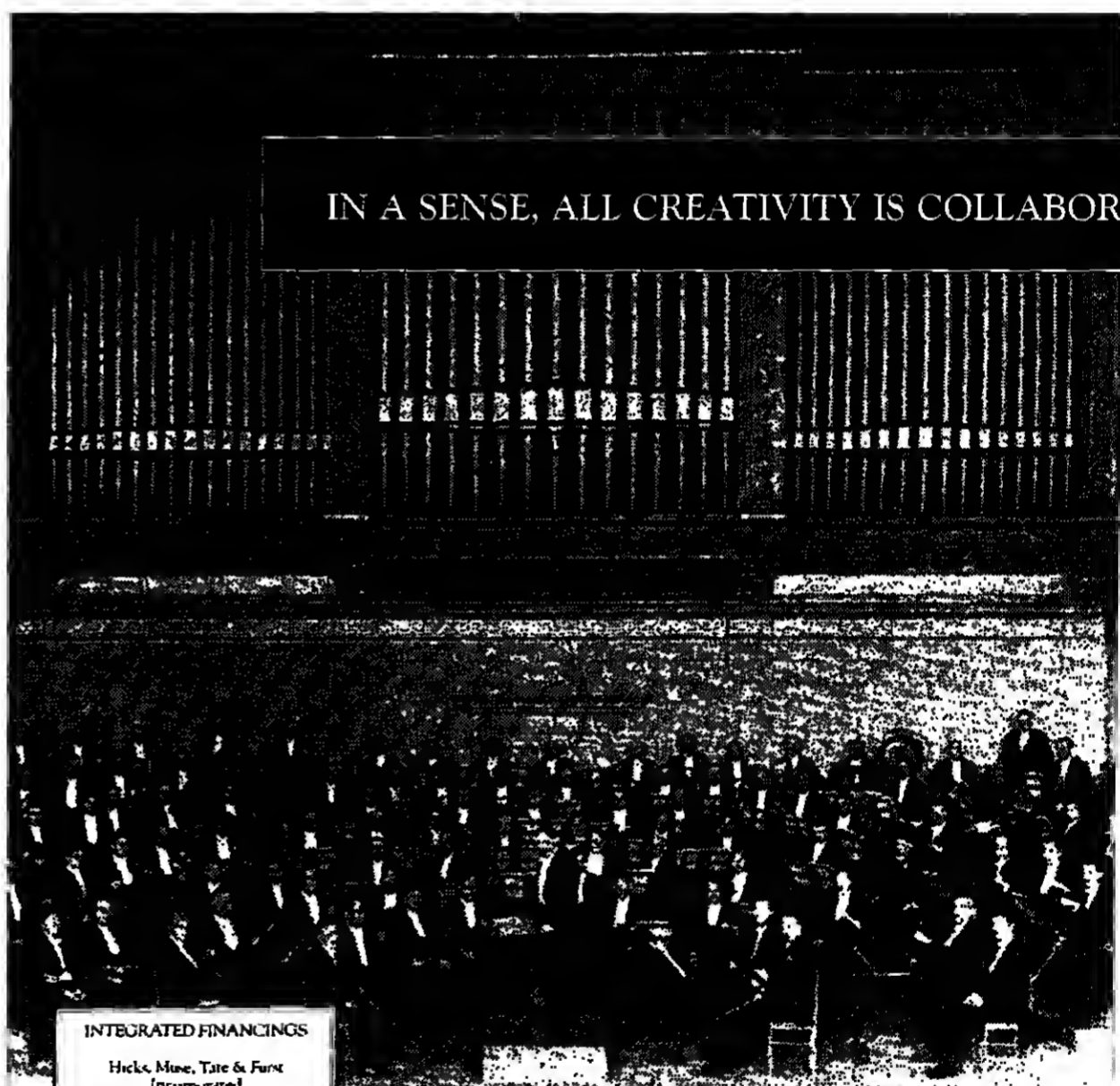
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BATA IN TRANSITION

Footwear family goes out of fashion

The group is still strong but recent upheavals may be only a start, says Bernard Simon

A relaxed atmosphere usually prevails at the quarterly meetings of Bata Shoe Organisation's board. Almost all the directors are long-time friends and trusted advisers of Mr Tom Bata, the energetic octogenarian who has held sway over the family shoe group for more than six decades.

The board meetings are held whenever possible in one of the dozens of countries where Toronto-based Bata makes or sells shoes. The day begins with an informal presentation by local management. At Mr Bata's behest, a small selection is on display of the roughly 1m pairs of shoes made or sold each working day in the far-flung Bata empire.

However, the mood was more expectant than usual when the board gathered in Padua, the centre of Italy's shoe industry, in April 1995.

A new management team headed by Mr Stanley Heath, the first chief executive from outside the family in Bata's 132-year history, had just completed a review of the group's European operations. His conclusions were grim.

Losses were mounting at retail chains in Germany, Belgium, the Netherlands and one of Bata's four subsidiaries in France. The directors were told drastic action was needed, including concessions from lenders and a quick sale of some of the most troubled businesses.

Mr Heath and his team had prepared their ground carefully. They knew that Czech-born Mr Tom Bata and his Swiss-born wife Sonja would balk at severing big chunks of Bata's European operations, or risking a confrontation with the group's long-time bankers. Several non-family board members were quietly briefed on the management proposals before they arriving in Padua.

The strategy appeared to work. The entire board, including the Batas, went along with the restructuring plan.

However, getting the proposals approved turned out to be the easy part. Implementing them triggered upheaval in one of the world's biggest family-owned businesses.

Mr Heath and several of his senior managers resigned five

months after the Padua meeting amid growing friction with Mr and Mrs Bata. Those who left included the newly-recruited chief financial officer and the head of Bata's European operations.

Nor did the European restructuring go smoothly. Although buyers were found for retail chains in France, Germany and Belgium, problems at Myrys, another French subsidiary, could not be resolved. Myrys, which operates 227 stores and several factories, filed for bankruptcy protection in April. The 110-outlet German subsidiary was sold to Facia of the UK, which has now entered insolvency proceedings.

Bata has also had its hands full in other parts of the world. In February, it unloaded Pic 'n Pay, a troubled 800-store chain based in North Carolina, for a nominal US\$1 plus a long-term promissory note.

Less than a week later, Pic 'n Pay's new owners - a New Jersey-based venture fund - put the company into Chapter 11 bankruptcy protection. Creditors, some of whom had little inkling of the chain's financial problems, were furious. NationsBank, the biggest creditor, is owed US\$41m.

In total, Bata has shed about a fifth of its 6,000 retail outlets over the past year. The turmoil has strained relations with suppliers and lenders, and damaged morale within the company.

Perhaps most important, the upheavals have heightened uncertainty over what will happen when Mr Tom Bata, who turns 82 this September, hands over the reins.

In a rare interview at his Toronto home, Mr Bata describes the past few years as "an adjustment period" that had affected not only Bata, but the entire footwear industry.

The key to a shoe company's success has traditionally been an efficient, low-cost manufacturing base tied to an extensive distribution network.

But that changed in the mid-1980s when Nike and Reebok took the shoe world by storm. "Footwear very quickly became marketing driven, not manufacturing driven," says

one US shoe distributor. Strong, distinctive brands and a flair for innovation became the key to healthy profits and sturdy growth.

In North America and western Europe, the cosy, main-street shoe store gave way to much bigger retailers in shopping malls, and to vast, low-cost superstores typified by Wal-Mart, the US retailing group, and Payless, another US chain where shoes sell for as little as US\$9.99 a pair.

"Whereas at one time our retail operation was primarily a means of distributing the products of our own manufacturers," Mr Bata says, "in these much more sophisticated types of outlets, no manufacturer could possibly produce the variety of products which the consumer would like."

Bata was slow to keep pace with these changes. Its organisation, management style and corporate culture are steeped in the family business trans-

other government incentives kept competitors at bay.

Managers of these overseas operations were plucked first from Bata operations in Czechoslovakia, and later from the Netherlands, the UK and Italy. They were given a high degree of autonomy. As one Bata-watcher puts it, "whether you had a strong Czech, you had a strong company. Where you had a lousy Czech, you had a lousy company."

For decades, the Bata empire showed remarkable resilience. Its business in Uganda was twice taken over by the government, and twice handed back. The company bought a vegetable-exporting farm in Zambia to provide foreign exchange for imported chemicals for its shoe factory.

It installed a turnkey shoe-making system in a factory in northern China in the late 1980s - and was recently

missed an opportunity to revitalise the business in 1985 when Mr Bata handed over the chief executive's job to his Harvard-educated son, Tom Jr.

The younger Bata turned out to be a less forceful manager than his father. Some of his business decisions were questionable. For example, he spearheaded the purchase of the Myrys shoe chain in France, although it competed directly against existing Bata businesses. Mr Tom Bata Sr says blame for the Myrys investment rests with the entire board.

The family appeared ready to make a fresh start when Mr Tom Bata Sr turned 80 in September 1994. Tom Jr moved aside, and the owners turned to Mr Heath, a friendly but firm UK-born Canadian who previously headed the Latin American food operations of RJR Nabisco, the US consumer products group.

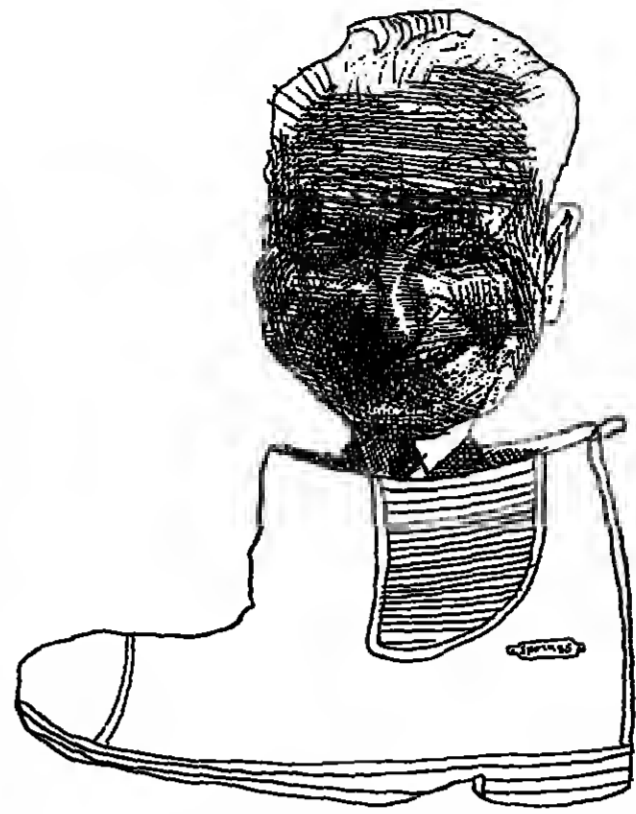
Mr Heath quickly began to put his stamp on the company. He told the Financial Times early in 1995 that he was "trying to create an environment in which at least the top 30-40 people around the world begin to buy into [a] sense of teamwork".

It was not to last, however. Within a few months of the Padua board meeting, relations had turned frosty between Mr and Mrs Bata on the one hand, and Mr Heath and his new team on the other.

Mr Bata described Mr Heath as "a very fine gentleman". But he noted that neither Mr Heath nor most of his recruits were "shoe people". According to Mr Bata, "this is a very, very peculiar business".

For their part, the new managers were irritated by what they saw as the owner's incessant interference in operations, often without their knowledge. As one said when they resigned last September, "you can't appoint a new chief executive and then poke your nose in all over the place".

In spite of the recent problems, Bata remains a force to be reckoned with in the international shoe industry. The company appears to be especially well placed to take advantage of trade liberalisation in Latin America and south-east Asia.



Indian unit struggles in face of competition

By Kunal Bose in Calcutta

Bata India started its downhill journey in 1992, when it reported a full-year loss of Rs88m (\$2.5m). It was widely thought that India's biggest shoemaker, 51 per cent owned by Canada's Bata Shoe Organisation, would quickly reorganise to meet competition from domestic manufacturers and imports. But it did not happen. This year the company reported a net loss of Rs5.49bn.

According to the parent, many of the Indian unit's problems stem from growing competition from low-cost imports and the virtual abandonment of Bata's time-tested policy of offering quality products at affordable prices, in favour of high-priced shoes and leather accessories for niche markets.

BSO reacted by posting a number of expatriate executives. Mr William Keith Weston, who was the regional director of Bata Pacific, replaced Mr P.E. Dutt as managing director.

The company modernised several stores, using some of the funds raised through a Rs180m rights issue to project a new image. But sales did not recover sufficiently. The group was left with stocks of high-priced shoes which it had to sell at a heavy discount.

Moreover, Bata's costs remain high. Employee costs represent about 20 per cent of sales, compared with as low as 7 per cent for new entrants. Mr Weston is trying to tackle high manufacturing costs by reducing outsourcing, hoping to raise Bata's in-house productivity.

Bata's 871 fully-owned stores also remain overstuffed. The most effective way of tackling the problem would be to sell stores to franchisees, but this would face union resistance. As for capital costs, BSO has given an interest-free loan of \$10m to Bata India which will be converted into equity later this year.

The money is being used to retire the company's high interest bearing debts.

The key to a shoe company's success had long been a low-cost manufacturing base tied to an extensive distribution network. But that changed in the 1980s when Nike and Reebok took the shoe world by storm

planted from Zlin, Czechoslovakia, to Canada in the 1930s before the Nazi occupation.

Mr Bata, who began his working life as an apprentice in a Zlin shoe factory, rebuilt the business by tapping into an enormous market around the world for practical, sturdy shoes. According to one story, he once fired a salesman who returned from Africa with the gloomy assessment that the market for shoes was minimal because everyone walked around barefoot.

Bata grew rapidly in the 1940s and 1950s by setting up fully integrated shoe industries, from tanneries to shoe shops, across Asia, Africa and Latin America.

Many of the factories were located in company towns far from big urban centres. Bata provided houses, schools and other amenities for its workers. In exchange, it got a cheap, plentiful and loyal labour force. Tariff protection and

invited back to refurbish the plant.

Bata retains many hallmarks of a family business. It has never disclosed revenues or profits. Even senior managers are kept in the dark about many aspects of the company's performance. One former employee says that "everyone who is in that company is a long-term, loyal servant to [Mr Bata], and he has incredible power over them."

The only person approaching Mr Bata's influence is his wife, Mrs Bata, 69, has an office next to her husband's at Bata's modest headquarters in suburban Toronto. She sits on the boards of several well-known Canadian companies and has applied her energy and determination to set up a widely-acclaimed 10,000-piece footwear museum on Toronto's Bloor Street. The museum's recent purchases include a pair of Napoleon's socks.

The Batas appear to have

DATA SOURCES:
Bloomberg Financial Markets: CBKT
Dow Jones Teleterm: 49510
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COMPANIES AND FINANCE: ASIA/PACIFIC

Buoyant demand lifts Indian vehicle makers

By Kunal Bose in Calcutta

Buoyant demand for two and three-wheeled motor vehicles, enabling price rises, has resulted in healthy profit advances for Indian manufacturers. To cope with demand all the leading producers are investing heavily to raise production and introduce new models.

For 1995, Bajaj Auto, the country's largest manufacturer of two and three-wheeled vehicles, posted a 32.84 per cent rise in profits before tax to Rs5,565m (\$170m) on a 28.2 increase in sales from Rs22,095m a year earlier to Rs27,945m. Net profits rose 37 per cent to Rs4,158m. Earnings per share were up 30.37 per cent from Rs4.17 to Rs5.37. The company plans to raise the dividend from Rs8 to Rs10 a share.

In spite of a strike lasting almost two months at its Waluj factory, Bajaj Auto raised production to more than 1.3m vehicles from 1.18m the year before. However, the company saw its share of the domestic market slip from 48.3 per cent to 46 per cent. Export income was up 45 per cent to Rs1,925m. The company is raising the capacity of the Waluj factory to 2m vehicles a year.

TVS Suzuki, which raised its market share of mopeds and motorcycles in the face of stiff competition, saw pre-tax profits jump 60 per cent to Rs698m (\$19.94m) on a 51 per cent increase in sales to Rs6,185m. However, because of a sharp increase in the provision for tax, from Rs32m to Rs258m, net profits grew only 2.18 per cent to Rs346m. The company is aiming at turnover of Rs10bn in the current year. It is in the process of finalising a Rs3bn investment programme to



Sales motor along; two and three wheel traffic in Delhi. Tony Anderson

build a scooter plant with capacity of 25,000 vehicles a month. The factory is to be commissioned by 1998, and will give the company a presence in every segment of the two-wheeler market.

Hero Honda Motors, a joint venture between Honda of Japan and India's Munjal group, posted a 35.44 per cent rise in net profits to Rs263.4m on sales up 33 per cent to Rs6,335m. The company, which sold 290,194 vehicles against 153,761 a year earlier, saw its market share improving. Earnings per share rose 33 per cent to Rs13.19.

The company hopes to commission a new motorcycle factory at Gurgaon in January which initially will have capacity of 100,000 vehicles a year. This will be doubled by September 1999. Hero Honda is also expanding the capacity of its existing factory at Dharuhera from 800 to 1,000 vehicles a day.

LML, a joint venture

between Piaggio of Italy and India's Singhanla group, posted a 48 per cent rise in sales to Rs5,125m. Net profits were ahead 17 per cent at Rs308m. Earnings per share rose from Rs6.38 to Rs7.44.

The company, which raised scooter sales by 20 per cent to 239,353 units, is aiming at increasing manufacturing capacity to 600,000 scooters a year. Piaggio will make available technology as capacity is expanded.

Most analysts agree that in order to compete effectively, PC suppliers will need to form global alliances. This reflects the need to achieve economies of scale in terms of components purchasing, and shortening product life-cycles which mean that the window of selling opportunity for a new PC product may be as short as six months.

Integrating their operations outside Japan and China will certainly provide NEC with opportunities to expand its PC business beyond its domestic market, but the deal raises fundamental questions about whether NEC should expand

Computing the benefits of a PC link-up

The NEC-Packard Bell tie-up is about expansion, but compatibility is in question

NEC of Japan and Packard Bell, the loss-making US-based home personal computer specialist, this week painted their PC joint venture as a big step into the cut-throat, \$120bn global PC market. However, the benefits of the deal are already being questioned by industry analysts.

The two companies presented the link-up as the formation of a global force in PCs with potential combined revenues of about \$8bn this year, making it the world's fourth-largest PC manufacturer after Compaq Computer, International Business Machines and Apple Computer.

Most analysts agree that in order to compete effectively, PC suppliers will need to form global alliances. This reflects the need to achieve economies of scale in terms of components purchasing, and shortening product life-cycles which mean that the window of selling opportunity for a new PC product may be as short as six months.

Integrating their operations outside Japan and China will certainly provide NEC with opportunities to expand its PC business beyond its domestic market, but the deal raises fundamental questions about whether NEC should expand

these operations at all, and if so, whether Packard Bell is the right partner.

Overall the deal - foreshadowed in April when NEC invested \$283m in Packard Bell, raising its stake from just under 20 per cent to an effective 40 per cent including preference shares - appears to be aimed at improving Packard Bell's financial performance and facilitating its continued rapid growth.

"open systems" technology. NEC is Japan's largest PC maker, but 90 per cent of its business is in Japan, where it has just under 50 per cent of the market, and where it has been under attack from lower-priced IBM-compatible machines built by competitors such as Fujitsu.

Overseas, NEC's presence - like that of Zenith Data Systems, the struggling PC subsidiary of France's Groupe

tioned NEC's determination to pursue a market in which margins are becoming wafer thin.

"By getting even further into the PC business, NEC is increasing its exposure to a low-end business," said Mr Shigeru Yoshinaka, industry analyst at SBC Warburg in Tokyo.

Mr Yoshinaka also questions whether a strategy that relies on a company with a very different management culture,

company will make it difficult for NEC to make it a profitable business.

NEC, however, insists that the benefits go beyond the PC business. According to figures from Dataquest, the high-tech consultants, the combined Packard Bell-NEC operations would have had a US market share of 15.1 per cent in 1995 in terms of unit shipments, making it the market leader there.

NEC is betting that this large market share will also provide it with an opportunity to expand its PC-related products in world markets. For example, semiconductor makers are competing to establish their own chips as the standard for graphics and sound processing in home multimedia PCs. "If NEC and Packard Bell use the same chip for graphic accelerators, the chances are better that it will become an industry standard," Mr Kuwabara says.

The challenge for NEC is to ensure that those additional benefits it envisions do not get swallowed up by the problems its expanded PC interests are likely to generate. Meanwhile, it is clear that NEC is now in the Packard Bell driving seat.

Michiyo Nakamoto and Paul Taylor

'By getting even further into PCs, NEC is increasing its exposure to low-end business' - Shigeru Yoshinaka, SBC Warburg

Packard Bell claims to have sold 4.5m PCs last year and has built up a solid position with low-cost multimedia machines aimed at the home PC market - the fastest growing segment of the world PC market in recent years. However, the company has had difficulty managing its rapid growth and has failed to make much impression on other markets, including the important corporate market and the continental Europe PC market.

For NEC, the deal may provide insurance against the day when its Japanese-language proprietary system can no longer compete effectively against international systems based on

Bull which Packard Bell acquired in April - has been largely restricted to notebook computers. However, integration with PB's business will bring economies of scale and provide NEC with much needed distribution channels in the US.

The Japanese company has expressed its ambitions to become a serious competitor in overseas markets. "The past 10 years were a period for NEC of catching up. The next 10 years will be a period in which NEC will enter the top league," Mr Takashi Kuwabara, general manager in charge of international PC businesses, says.

and with a poor management record to boot, is a viable one.

NEC's growing involvement with Packard Bell follows its decision to take a 17 per cent stake in Groupe Bull of France as a way to promote good relations in the difficult European market. Since then it has found itself stuck in an expensive relationship from which it cannot get out. "It could find itself in the same situation with Packard Bell," Mr Yoshinaka says.

Meanwhile, other analysts, including Mr Peter Wolff, industry analyst at Baring Securities in Tokyo, fear the decision to keep Mr Beny Alagom on as head of the new

Texas Instruments buys TDK arm

By Michiyo Nakamoto in Tokyo

Texas Instruments, one of the world's leading semiconductor makers, has acquired Silicon Systems (SSI), the US semiconductor subsidiary of TDK, the Japanese maker of magnetic tapes and electronic parts, for \$675m.

The US group will acquire SSI's business in semiconductors for hard-disk drives, but not its communications products division nor its systems division, which TDK will retain.

The Japanese company plans to continue its involvement in electronic devices, which it says remain "a central element of TDK's long-term plans".

The sale of the US subsidiary, which TDK acquired in 1989 in a friendly takeover, reflects the shifting balance of strength in the semiconductor industry.

In the 1970s and 1980s, there

was widespread concern in the US and Europe that Japanese semiconductor makers would dominate the world.

Although Japanese companies remain some of the largest and most successful semiconductor makers, the return of Intel, the US company, as the world's largest semiconductor maker, and the growing presence of Korean companies in the memory market - the forte of Japanese companies - has softened the threat.

TDK's decision to dispose of SSI, which had just begun a return to profit, surprised some industry watchers. However, the large amount of capital spending required of semiconductor makers is thought to have encouraged TDK to focus its capital spending in fewer areas.

SSI, which recorded sales of \$407.2m in the year to March 1996, represents less than 10 per cent of TDK's overall business.

Corporate culture takes toll at Sony

By Michiyo Nakamoto

Japanese salarymen are noted for their dedication to the company, but there are growing signs that devotion to work extends dangerously to the higher echelons of the corporate hierarchy.

Mr Norio Ohga, 66-year-old chairman and chief executive of Sony, was yesterday still confined to a Tokyo hospital bed as a result, according to Sony, of overwork. His ill-health comes on the heels of the retirement of Mr Akio Morita, one of the founding figures of Sony, who collapsed on the tennis courts.

Mr Ohga, who last year handed over the day-to-day operations of Sony to Mr Nobuyuki Idei, president and chief operating officer, was taken to hospital after complaining of feeling unwell.

Sony's chairman had been particularly busy over the past few weeks in his role as chairman of the Electronic Industries Association of Japan, which represents the country's computer, semiconductor and consumer electronics makers.

Mr Ohga has been tackling the task of forging an agreement with the US Semiconductor Industry Association on private industry co-operation to replace the bilateral semiconductor accord, which expires at the end of July.

Mr Ohga's hospitalisation is likely to refocus attention on the strenuous demands made on Japanese corporate employees, not least elderly executives. The Japanese word *karoshi*, which means death from



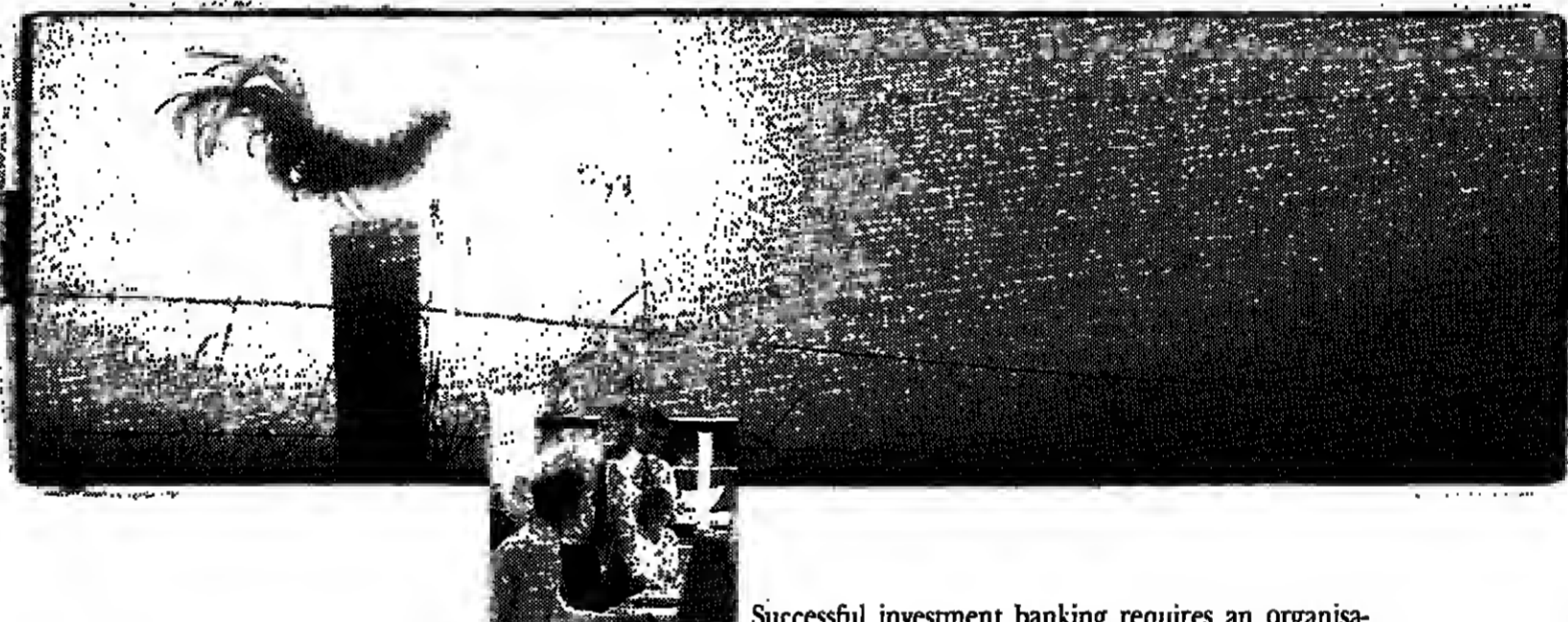
Norio Ohga: ill-health blamed on rigours of office

overwork, underlines the seriousness of the problem.

Overwork, however, is not restricted to young men. Japanese executives tend to continue in highly demanding posts for longer than their western counterparts.

Although Mr Idei more or less runs Sony, Mr Ohga is actively involved in corporate affairs, according to the company. He became chairman after Mr Morita and forced to retire aged 73.

At 71, Mr Shoichiro Toyoda juggles the chairmanship of Keidanren, Japan's most influential business organisation, and of Toyota, the carmaker. However, his brother, Mr Tetsuro Toyoda, 67, who continued as president of Toyota while assuming the chairmanship of the Japan Automobile Manufacturers Association, was hospitalised last year and moved to the less demanding post of vice-chairman.



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COMPANIES AND FINANCE: THE AMERICAS

Orange County seeks \$900m from issue

By Maggie Urry in New York

Orange County, the bankrupt Californian local authority, returned to the debt markets yesterday to raise nearly \$900m, bringing the municipality a step closer to ending the crisis precipitated when it lost nearly \$1.7bn on derivatives investments in late 1994.

backing for the securities give them a AAA rating. Bankers said yesterday there was good demand for the bonds. Orange County filed for bankruptcy in December 1994 after derivative investments plunged in value when interest rates moved against the County's position.

The bond issue represents a part of the county's plan to emerge from bankruptcy. The plan was put forward early last year and later revised. It met trouble when the county's affluent residents voted against a sales tax increase last June which was designed to help pay debts.

The county sued Merrill Lynch, its investment bank, which has consistently denied any wrongdoing in its involvement, and KPMG Peat Marwick, its auditors, which is also contesting the County's allegations.

have repeatedly met New York bankers, investors and ratings agencies in an attempt to convince them of the county's determination not to default on future bond issues. However, investors have remained angry and sceptical.

Warehouse chain 'sold fake Calvin Klein jeans'

By Richard Tomkins in New York

Calvin Klein Jeanswear, the US company that makes Calvin Klein branded jeans, has accused Price/Costco, the US membership warehouse chain, of selling bogus jeans under the Calvin Klein trademark.

NEWS DIGEST

Whirlpool warns again on profits

Whirlpool, the US white goods manufacturer, has delivered the latest in a series of profits warnings based on poor trading in Europe. This time it has blamed the strength of the Italian lira, which it said could reduce budgeted operating profits in Europe by \$60m for the full year.

Tenneco and Arvin expect size to matter

By Halg Simonian, Motor Industry Correspondent

Tenneco Automotive and Arvin Industries, two of the world's leading car component makers, expect the number of significant parts suppliers to decline sharply as carmakers turn increasingly to parts companies that operate globally.



Richard Snell (left) of Arvin and James Baker of Tenneco expect economies of scale to hamper rivals

The two US companies also predicted, separately, that their sales and profits would grow faster than the rise in car demand on the back of rationalisation and the steady move to higher-value-added items in the components industry.

man of Arvin, said sales were expected to reach \$2.5bn this year compared with \$1.8bn in 1995. Analysts expect the group's net profits, which were held back by an expensive legal settlement in 1995, almost to double this year, to \$35m.

systems. They control the world's best known brands for mufflers and shock absorbers, and in recent years consolidated their positions through acquisitions.

and pressure from car companies for higher productivity and lower prices. "It would appear to be impossible for a third company, no matter what its resources, to establish itself in the shock or exhaust business today," Mr Baker said.

Microsoft unveils platform for Net operators

By Paul Taylor

Microsoft, the world's largest computer software company, has stepped up its push into the Internet market by announcing a new software technology platform, code-named "Normandy", designed to be used by commercial online service operators.

Gates, Microsoft chairman and chief executive, and Mr Bob Massey, CompuServe's president and chief executive.

last year with Windows 95, to integrate more closely with the Internet. Under the terms of the agreement CompuServe will use Microsoft's new software for its suite of online services which are being migrated from proprietary to open system technology.

gias," Mr Massey said. For Microsoft the deal is an important endorsement of the Normandy platform, which uses existing Microsoft products including Microsoft Windows NT Server, the software group's central corporate network product.

CompuServe will become the first commercial online service supplier to license Normandy under a wide-ranging strategic alliance announced by Mr Bill

Microsoft Network, launched last year with Windows 95, to integrate more closely with the Internet.

Microsoft's new software for its suite of online services which are being migrated from proprietary to open system technology.

The disclosure of the Normandy platform, and other recent announcements, are seen by analysts as showing that Microsoft remains bent on providing the infrastructure for the emerging Internet industry.

Jarvis Hotels advertisement featuring the Jarvis logo and text: 'PLACING AND INTERMEDIARIES OFFER. Jarvis Hotels plc ("Jarvis") is seeking a listing on the London Stock Exchange. Jarvis is one of the largest operators of hotels in the UK and specialises in the mid market hotel sector.'

KOREA LIBERALISATION FUND LIMITED notice regarding the Annual General Meeting of Shareholders on 11th June 1996.

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CREDIT LYONNAIS CANADA advertisement regarding the Subordinated Floating Rate Debentures due 2001.

Financial Regulation Report advertisement, a monthly newsletter available on subscription, covering worldwide regulatory developments.

Reid backs Liam Strong against investors

By Ross Tieman and William Lewis
 Sir Bob Reid, chairman of Sears, the retail group which owns Selfridges, last night said that he would not fire Mr Liam Strong, chief executive, despite mounting shareholder concern.
 "Everybody wants to fire Liam Strong, according to the newspapers. I am certainly not going to fire him," Sir Bob said. He added: "He is an excellent executive."
 Sir Bob's comments came as the receiver to Facia Group confirmed that 380 shoe shops sold by Sears

were owned personally by Facia's chairman, Mr Stephen Hincliffe, and not by Facia Group as had been thought.
 KPMG, the accountancy firm, said that it was carrying out its receivership on the basis that the three companies which purchased from Sears the right to trade out of 380 shoe shops, including the Saxone and Curtes chains, were owned by Mr Hincliffe, not the Facia Group.
 The three companies are Facia Footwear, Cityscan and Wisebird, to which Price Waterhouse were appointed as administrators by the

High Court earlier this week. When Sears sold the right to trade out of the shoe outlets last August and February it announced that they had been sold to Facia.
 It is understood that at the time the contracts were drawn up for the sale of the shoe shops, Facia Ltd was named as a party to the deals.
 A spokesman for Mr Hincliffe said that the plan had been for ownership of the shoe shops to transfer to the Facia Group, which was partly owned by Murray Johnstone, the Glasgow-based investment manager, in August.

Following the transactions Sears continued to hold the leases of the properties and pay the rent. It was also contracted to carry out several management tasks, including the paying of staff, warehousing and supply of stock.
 In return Sears has been receiving management and licence fees from the shoe shops.
 Although Sears has now been obliged to take additional provisions of £25m in respect of the shoe shops it has sold, Sir Bob told the Financial Times yesterday that the decision to sell them was taken collectively by the Sears board. Responsibility did not rest with Mr Strong alone, he said.

Yesterday Sir Bob signalled his own confidence in the company's prospects by buying 25,000 shares at a cost of £23,875.
 "This business is very much maligned," he said.
 When Mr Strong was appointed to the post of chief executive in February 1992, he promised to restore within three years the fortunes of the Selfridges department store, Freemans mail order and British Shoe retailing business.

Racal to reshape division for £20m

By Christopher Price
 A 21 per cent rise in profits at Racal Electronics yesterday was offset by an announcement that the data communications, telecoms and electronics group is to restructure its data products business at a cost of £20m (£30.4m).
 The company, which is heavily indebted following the purchase of British Rail Telecommunications (BRT) for £133m in December, also signalled its intention to sell its marine and energy division and other non-core assets, a move likely to raise in excess of £20m.

Turnover in the 12 months to March 31 rose 11 per cent to £1.01bn. Operating profits from continuing operations increased 27 per cent to £78.6m. Profits at the data communications division rose 49 per cent to £21.4m, boosted by three months contribution from BRT, and a strong performance from Network Services and Camelot, operator of the National Lottery.
 In the defence radar and avionics division, profits almost tripled to £18.5m on sales 86 per cent higher at £181.1m. However, sales in the radio communications business slipped 10 per cent to £161m, while profits fell 36 per cent to £12.9m. The company blamed "competitive trading conditions" and the need to increase R&D expenditure on the Bowman contract, a £1.5bn tender for UK army telecommunication equipment.
 Marine and energy profits increased 25 per cent to £8.4m on turnover 7 per cent up at £122m.
 Earnings per share rose 21 per cent to 16.54p. The final dividend of 3.9p makes 6p for the full year, an increase of 20 per cent. Gearing fell from 85 per cent after the BRT deal, to 75 per cent.

Pacific and Asia help Powerscreen rise 24%

By Tim Burt
 Powerscreen International, which makes screening and stone crushing equipment, yesterday reported a 24 per cent increase in pre-tax profits following strong demand from landfill operators and increased sales in Asia and the Pacific Rim.

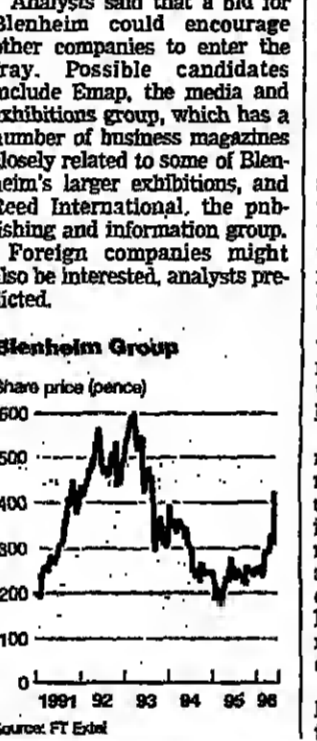
The Ulster-based group saw pre-tax profits rise from £28m (£44m) to £35m on increased sales of £261.3m (£196.8m) in the year to March 31, including turnover of £11.3m from acquisitions.
 Most of the profits came from the screening division, which contributed £22.2m (£19.4m) at the operating line.
 Mr Shay McKeown, chief executive, said government moves to encourage landfill owners to make better use of their sites had lifted demand for screening machines, which sort sand, aggregates and demolition waste for resale or disposal.
 Growing sales in Asia also lifted profits in the crushing and recycling division, reporting gains of £5.13m (£4.72m) from continuing operations.
 The sharpest increase in profits, however, came from the materials handling business, up from £4.71m to £9.95m. This followed a 15-year manufacturing contract with John Deere, the US mobile equipment group, worth up to £50m in the first 2½ years.
 Full year working capital costs rose to £17.6m partly to cover production start-ups for the John Deere order, although Mr McKeown said spending had fallen in the second half.
 Earnings per share rose from 25p to 30.5p. A final dividend of 6.7p lifts the total to 9.2p (8.1p).

United News mulls bid for Blenheim

By Geoff Dyer
 United News & Media, the publishing, media, and financial services company, is considering making an offer for Blenheim Group, the exhibition organiser.

A bid for Blenheim from United would be its first significant move since it merged with MAI Group in April to create a group with a market capitalisation of about £3.5bn (£8.3bn).
 Shares in Blenheim, which is recovering from a torrid 1995 year when it issued two profit warnings, jumped 70p to 40p after it announced it had received an approach, understood to be from United, which might lead to an offer.
 The statement was prompted by the 37p rise in Blenheim shares on Tuesday. Shares in United, which refused to comment on the Blenheim announcement, fell 19p to 70p.
 Analysts said if an offer was to be successful, it would almost certainly need to be on an agreed basis, as shares in Blenheim are very tightly held.
 Directors of the group and their relatives control about 25 per cent of the ordinary shares and a further 15.4 per cent is in the hands of Compagnie Generale des Eaux, the French water utility, which has supported the present management.
 The narrow shareholding meant a bidder would have to offer a generous premium, analysts said. Mr Anthony de Laranga of brokers Panmure Gordon said a realistic offer would have to be at least 50p-55p per share, valuing the group at £465m-£510m.
 United already has a large exhibition business magazine division, which trades under the name of Miller Freeman and which was the group's fastest growing division last year, increasing operating profits by 30 per cent to £49.3m.

Analysts said a bid by United would have strategic logic because the group could expand Blenheim's profits through cost-cutting and by using its business magazines to support the exhibitions. They predicted that United could finance a bid without raising new equity.
 Blenheim's 1995 results, which showed a 17 per cent rise in profits to £35.6m, helped to restore some of the credibility lost through a succession of profit warnings and broker downgrades in the previous two years.
 Analysts are forecasting that profits will rise to £45m-£50m in 1997.
 The French business, which contributes 37 per cent of group revenues, has shown signs of recovery with profits rising to £14.3m (£9.8m) last year.
 Analysts said that a bid for Blenheim could encourage other companies to enter the fray. Possible candidates include Europ, the media and exhibition group, which has a number of business magazines closely related to some of Blenheim's larger exhibitions, and Reed International, the publishing and information group.
 Foreign companies might also be interested, analysts predicted.



Yorkshire Water moves to restore its reputation

By Jane Martinson
 Yorkshire Water, the water services company, sought to restore its battered reputation yesterday by emphasising its commitment to customer service and announcing a better-than-expected 14 per cent increase in pre-tax profits.

Mr Brandon Gough, chairman, and his team are anxious to stress that things can only get better. However, after two damning reports on service in the past month, it disappointed investors by announcing that the expected share buy-back was now not "appropriate".
 Mr Brian Wilson, group finance director, said: "The focus as a new management team is to get customers' confidence back. Once this has been done we will certainly address the balance sheet structure."
 Following criticism over its service failures from Ofwat, the industry regulator, two days ago, Yorkshire agreed not to increase prices above inflation, a move which will cost £40m in revenues over the next three years. It also agreed to spend an extra £50m on top of the £170m already announced to improve supply. Total capital expenditure will amount to more than £600m in the two years to March 1997.
 The group said supplies would be maintained this summer, even in the event of weather conditions similar to last year.
 A tankering operation to maintain supplies last year resulted in an exceptional charge of £47.2m. Pre-tax profits for the year to March 31 rose to £162m (£142m), partly as a result of operating efficiencies. The 1994 figure was hit by a £50m charge for restructuring and a customer dividend.
 The news prompted Mr Frank Dobson, the Labour party's shadow environment sec-



Brandon Gough: keen to convince that things can only get better.

Courtaulds Textiles replaces Noel Jervis

By Jerry Luesby
 Courtaulds Textiles, the struggling textiles group, yesterday replaced Mr Noel Jervis as chief executive, in a bid to accelerate a painful disposal programme that will cut group sales by more than 10 per cent.
 Mr Colin Dyer, who joined Courtaulds in 1982 from management consultants McKinsey, was yesterday appointed as chief executive with immediate effect.
 Analysts reacted to the announcement with some shock.
 "If a statement had appeared announcing Mr Jervis' retire-

ment in two to three years time, it would not have come as a surprise," said one. Mr Jervis took over as chief executive on the departure of Mr Martin Taylor to Barclays Bank at the beginning of 1994. However, even once the disposals aim had been announced, Mr Jervis seemed to be tackling the disposal programme one business at a time, rather than in a grand sweep.
 Mr Dyer said yesterday the disposal programme would be considerably accelerated. The group plans to get out of the spinning business. It would review its US operations.

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends (p)	Total for year	Total last year
Avesco	17.3 (18.3)	1.79 (0.97)	18.8 (102.7)	2.5	Oct 8	1.4	4	1
Calsonic	151 (157)	0.629 (0.676)	12.6 (14)	6.5	July 20	6.5	11.5	11.5
Freepages	1.29 (1.31)	0.842 (0.148)	1.351 (1.47)	-	-	-	-	-
Hamam	11.96 (21.8)	20.59 (37.1)	7.8 (14.2)	5	Aug 16	3	7.5	7.5
Highbury House	11.96 (21.8)	3.02 (5.13)	17.74 (30.6)	0	-	0	0	0
IMI Ltd	45.4 (40.3)	14.4 (4.2)	18.4 (6.6)	0	-	0	0	0.75
Powerscreen Intl	261.2 (196.8)	36 (23)	30.5 (25)	8.7	-	8.9	9.2	8.1
Racal Electronics	1,059 (850.2)	70.4 (33.3)	16.54 (13.7)	3.9	Aug 26	3.25	6	5.3
Saxone & Curtes	114.2 (131.1)	18.5 (14.5)	8.4 (8.4)	2.4	Aug 6	2.2	3.8	3.3
Shelving Inds	372.6 (342.2)	23.2 (20.2)	16.4 (13.6)	6.7	Aug 6	6.2	8	6.5
United Drug	8 miles to Mar 31	116.8 (103.4)	2.72 (2.33)	10.09 (7.72)	2.8	July 26	2.53	-
Voss Met	0.257 (0.051)	0.597 (0.149)	- (-)	-	-	-	0.4	0.7
Waddington (John)	256.8 (258.3)	11.94 (53.3)	7.45 (40.2)	5.4	Aug 9	4.9	8.4	6.7
Yorkshire Water	573.6 (543.3)	102.4 (142.4)	72 (65.5)	21.8	Oct 1	18.3	31	27.5
Young & Co's	73.9 (72)	5.23 (5.31)	28.67 (27.1)	7.85	July 17	7.75	15.2	15

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Indonesia Fund Limited
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 evidencing 100 Ordinary shares of US\$ 0.01 each
 Notice of Annual General Meeting of Shareholders
 Notice is hereby given that the Annual General Meeting of the Company will be held on the 11th Floor, Kingsbridge House, 197 Kingsbridge, London SW7 1RB on Wednesday, 3rd July 1996 commencing at 10.30 am to transact the following business.

RESOLUTIONS

- To receive the report and accounts for the period ended 31st December 1995 together with the reports of the directors and the auditors thereon.
- To elect as a director The Rt Hon Norman Lamont MP.
- To elect as a director Vincent Amos.
- To elect as a director Mr J. L. Lifford.
- To elect as a director Mr S. G. Galloway.
- To elect as a director Mr J. R. Seymour.
- To appoint the Auditors, Ernst & Young, and to authorise the directors to fix their remuneration.

Having arrangements for IDR holders
 IDR holders who wish to vote must follow the procedure explained hereinafter.
 IDR holders must deliver the IDRs to the Depository at the latest on Friday 28th June by 10.30 am at the address given below. Instructions concerning Depository telephone 308 66 42 (area 2172). MICROFILM, neither the depository nor the manner in which votes should be cast, and indicate to whom the IDRs should be returned after the meeting, or
 Instruct EUROCLEAR or CEDEL to block the number of shares for which they wish to vote and to vote on their behalf.

Copies of the Annual Report of the Company are available from Jupiter Asset Management Limited, Kingsbridge House, 197 Kingsbridge, London SW7 1RB and with the Depository at the address indicated below.

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Consolidated Highlights (in millions of USD)

	1994	1995	% change 94/95
Total assets	28,584	30,157	+ 13.4%
Amount due to customers	18,341	20,054	+ 9.3%
Claims on customers	4,368	4,568	+ 4.1%
Claims on credit institutions	13,191	14,722	+ 11.6%
Securities portfolio	2,705	3,818	+ 41.2%
Own funds	1,248	1,288	+ 3.4%
Profit for the financial year	32	102	+ 110.0%
Dividend per share (in USD)	34	40	+ 18.0%

Exchange rate 31/12/1995: 1 USD = 28.6 LUF

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COMMODITIES AND AGRICULTURE

MARKET REPORT

Copper prices plunge to two-year lows at LME

By Kenneth Gooding, Mining Correspondent

A Chinese puzzle, option related selling and a wave of bearish sentiment combined yesterday to send COPPER prices plunging to their lowest levels for two years on the London Metal Exchange.

Most other LME metals fell in sympathy, with only LEAD and ZINC remaining relatively stable. ALUMINIUM dropped briefly to a two-year low and NICKEL also fell sharply, but both rallied before the end of trading.

"One of two big players - US hedge funds - thought the copper market was ripe for shorting," said one analyst. "So they went for the soft underbelly. But there was no bloodbath."

He said the sharp fall in copper's price sent some option traders running for cover and they joined in the selling.

Copper for delivery in three months fell to US\$2.25 a tonne in late trading last night, more than 6 per cent below Tuesday's closing price and 17 per cent below the 1996 peak, reached early in May, of \$2.715.

Some traders suggested the price would continue down to \$2.20 a tonne before it steadied.

Mr Larry Kaplan, analyst at the Fleming Global Mining Group, pointed out that the copper market was seeing for a substantial supply surplus in the second half of this year. Also, recent interruptions to supply had been eliminated, so the only factor preventing a complete collapse in copper's price were rumours that China was to buy substantial tonnage.

"But the Chinese won't push up prices against themselves. They will come in from time to time as bargain buyers."

According to Mr Peter Hollands, author of the Copper Emissions Service newsletter, the rumours suggested China would import 100,000 to 110,000

tonnes of copper, partly to build up its strategic stockpile. So far, however, LME stocks had not fallen in the way that might be expected if China was buying. "We truly don't know what to believe. If it does happen, prices could be in for another roller-coaster ride. But if over the next few weeks it becomes clear that it will not happen, prices will collapse."

The difficulties analysts face in trying to solve this Chinese puzzle are outlined by Mr Ted Arnold, metals specialist at the Merrill Lynch financial services group. "We concede that the Chinese are once again a wild card in the price equation," he writes in Merrill's Commodity Market Trends. "If they decide to buy for both current consumption and their strategic stockpile in the second half of this year, they should be able to buy at rather lower prices than at present. All they have to do is wait and watch US surplus metal start to build up in LME warehouses."

"On the other hand, the Chinese may simply decide to play fun and games with the western market and hide their hand completely. The Chinese could, for example, remain totally withdrawn from the spot market as buyers for months and live off their strategic stockpile."

Alternatively, they could decide to sell part of their stockpile to the west in the second half while also aggressively shorting the market. This could drive prices down sharply. Then the Chinese could buy back all the metal they wanted at much lower prices than would otherwise be the case, as well as making money on their short selling.

"The variables are many and the big Chinese trading houses can be as opportunistic as they like. Chinese metal purchases and sales are no longer monolithically controlled. There are a number of medium to small-sized players as well these

days. All this suggests that the copper market is going to be much more volatile and unpredictable than we were previously expecting."

The London precious metals complex bounced slightly in the afternoon following an overnight dip, but dealers said further losses were possible, reports Reuters.

The trend is lower for now across the board. But everyone will be quite short right now, so trades could be quite choppy," a dealer said.

PLATINUM was trading at two-year lows and GOLD and SILVER were at five-month lows after chart-based long liquidation took the complex several notches lower in New York overnight. Platinum was fixed at \$392.75 a troy ounce, down \$6.75, while gold closed \$315.15 down at \$387.50 an ounce and silver 16 cents down at \$5.2074 an ounce.

India predicts tea prices will remain firm Strong demand is expected to soak up record output, writes Kunal Bose

India, the world's largest producer of tea, expects that prices of the commodity will remain firm throughout the current year, in spite of record production. Producers, who took a beating at the auctions last year, have so far this season realised decent prices for tea grown in all parts of the country. The market is particularly strong for orthodox tea, which is mostly exported.

According to Mr P.K. Sen, chairman of J. Thomas, the world's largest tea broking firm, "in spite of the unusually high production in November and December last year, the current season did not open with any significant stocks at the auction centre. All previous season tea had been sold out and we think the supply of the commodity will remain pretty tight till the year-end. Unlike last year, the market has moved in favour of the sellers. The producers will get a good premium for quality tea."

Last year's prices were a big disappointment to the Indian tea industry. However, the producers, who until the middle of 1995 thought that the production could be as low as 725m kg, heaved a sigh of relief

when the season ended with an output of 754m kg, up from 744m in 1994. "More than the breakthrough in production what gives us comfort was the turnaround in export in 1995," commented Mr S.S. Ahuja, chairman of India's Tea Board. "We fared very badly in 1994 when our tea export amounted to only 151m kg, the lowest since 1936. However, aided by a strong revival in demand for Indian tea in the Commonwealth of Independent States, our export last year rose to nearly 165m kg."

"Till 1991, India was exporting, therefore, fixed a production target of 785m kg for the current year. Industry officials do not consider the target unrealistic. In every tea growing centre in the country, particularly in Assam and West Bengal, the average yield per hectare falls far short of the productivity level of the efficiently managed gardens. For example, in Darang district of Assam, the best garden has a productivity rate of 2.94 kg a hectare, against an average yield of 2.011 kg. The average productivity of the gardens in the hills of Darjeeling is only 532 kg a hectare, while there are a few estates

growing nearly 1,150 kg. According to Mr Tejendra Khanna, commerce secretary, because of the difficulty in getting additional land for tea cultivation "much of the increase in production in future will have to come by way of productivity improvement". The federal government wants the industry to raise the production of tea to 1bn kg by the turn of the century. But as Mr Ahuja pointed out, the 1bn kg production target provided only "48m kg to come from new plantation."

Mr Ahuja said that the Tea Board has asked the industry to chase an export target of 180m kg in the current year. Besides the CIS, which offers volume, the Indian industry should "concentrate on markets like the UK, Germany and Japan, which pay good prices for tea," according to Mr Ahuja.

India surrendered the top exporter's slot to Sri Lanka some years ago, and Kenya's exports overtook India's in 1995. "But more than export volume, we are looking at price realisation. After all, we have a big domestic market for tea, unlike Sri Lanka and Kenya," said Mr Ahuja.

accounts for nearly 50 per cent of India's tea export. As part of a new marketing strategy, the five leading members of IFA have formed a consortium called Project India Blend for selling value-added packet tea, containing blends of Assam orthodox, first in Russia and then in other CIS countries. Gelgate Trading of the UK will be marketing 1m kg of Assam orthodox tea in packets under Naxos brand name in the current year.

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Regulators sniffing around at US cheese exchange Laurie Morse reports on an investigation into possible price manipulation on a little-known market

There is the smell of a rat at the National Cheese Exchange in Green Bay Wisconsin, where Federal regulators and State authorities are investigating possible price manipulation in the market that is set to price nearly \$18bn in bulk cheese sales each year.

The little-known exchange has been operating a cash, or "spot" cheese market for nearly a century. Until recently it was mostly a residual market, a sideshow to the government dairy price supports that dictated milk and cheese prices. As the government exits the dairy support business, however, the exchange has become a much bigger cheese, and its relatively secret and unregulated operations have drawn the attention of government investigators.

A handful of exchange members meet once a week, on Friday morning, to set prices for 40,000lb loads of cheddar cheese. Often there are no trades,

only indications of bids and offers, which are posted by hand on a black-board. Sessions rarely last longer than a half hour.

Although consequential amounts of cheese are traded there, the market indications posted at the National Cheese Exchange provide the basis for prices paid to bulk cheese producers nationwide, and indirectly for milk pricing for most of the nation's dairy farmers.

Only a handful of companies trade at the exchange and for the past decade sales there have been dominated by consumer cheese marketing giants, particularly the Philip Morris Company's Kraft Foods subsidiary. "These retailers have a special interest in bulk cheese pricing, and had traditionally been buyers at the exchange."

In the late 1980s, however, as the government's influence over dairy markets started to wane and market prices rose above government sup-

ports. "We began to see some bizarre trading patterns at the NCE," says Mr Willard Mueller, an Agricultural Economist at the University of Wisconsin. Traditional buyers, particularly processors, became heavy sellers on the exchange market was liberalised. Shortly afterwards bulk cheese producers, traditionally the exchange's sellers, turned buyers, presumably in an attempt to prop up national prices for their products, Mr Mueller suggests. His Food Systems Research Group, which specialises in studies of failed markets, was commissioned to sniff out problems at the cheese exchange by a Wisconsin state consumer protection agency and has just completed its four-year inquiry. Its conclusion is that Kraft, which accounted for 74 per cent of the sales on the exchange from 1988 to 1994, not only had the motivation and capacity for influencing prices at the exchange, "but occasionally did so," Mr Mueller

link was hardly recognised by the CFTC, much less by the exchange, where Mr Richard Gould, the National Cheese Exchange President, has said he did not learn the CFTC was his regulator until he attended a congressional hearing on market manipulation in Washington last month. At that hearing acting CFTC chairman Mr John Tull told legislators that the CFTC was working with the Justice Department and the Federal Trade Commission to investigate market manipulation at the exchange.

The government has tried to get its teeth into cheese market complaints in the past, but has never been able to prove prices had been manipulated. "The real solution to the problems at the NCE," researchers say, is to broaden the number of traders and improve market depth, or liquidity. This might be accomplished by listing the market on computer, something the exchange is considering.

The CFTC became the exchange's only direct regulator three years ago after New York's Coffee, Sugar and Cocoa Exchange launched a bulk cheese futures contract. The agency has powers to supervise cash markets that underly futures contracts. This

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Aluminum, Lead, Zinc, Nickel), price change, and price per tonne. Includes sub-section for LONDON METAL EXCHANGE.

Precious Metals continued

Table with columns for metal type (Gold, Silver, Platinum, Palladium), price change, and price per ounce.

GRAINS AND OIL SEEDS

Table with columns for grain type (Wheat, Soybeans, Corn, Barley), price change, and price per bushel or tonne.

SOFTS

Table with columns for soft commodity type (Cocoa, Coffee, Sugar), price change, and price per tonne or hundred pounds.

MEAT AND LIVESTOCK

Table with columns for livestock type (Live Cattle, Live Hogs, Pork Bellies), price change, and price per hundred pounds.

ENERGY

Table with columns for energy type (Crude Oil, Heating Oil, Natural Gas, Gas Oil), price change, and price per barrel or million Btu.

FUTURES DATA

Table with columns for futures type (Wheat, Soybeans, Corn, Barley), price change, and price per bushel or tonne.

PRECIOUS METALS

Table with columns for precious metal type (Gold, Silver, Platinum, Palladium), price change, and price per ounce.

INDEXES

Table with columns for index type (Dow Jones, S&P 500, Nikkei), price change, and index value.

JOTTER PAD section containing a grid for a word search puzzle.

CROSSWORD

No.9,087 Set by GRIFFIN

Crossword puzzle grid with clues for words to be filled in.

Solution to crossword puzzle No. 9,087, showing the filled-in grid.

PRECIOUS METALS

Table with columns for precious metal type (Gold, Silver, Platinum, Palladium), price change, and price per ounce.

LONDON BULLION MARKET

Table with columns for bullion type (Gold, Silver, Platinum, Palladium), price change, and price per ounce.

UNLEADED GASOLINE

Table with columns for gasoline type (Regular, Premium), price change, and price per gallon.

LONDON METAL EXCHANGE

Table with columns for metal type (Aluminum, Lead, Zinc, Nickel), price change, and price per tonne.

MEAT AND LIVESTOCK

Table with columns for livestock type (Live Cattle, Live Hogs, Pork Bellies), price change, and price per hundred pounds.

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Table with columns for soft commodity type (Cocoa, Coffee, Sugar), price change, and price per tonne or hundred pounds.

LEADS

Table with columns for lead type (Lead, Lead Oxide), price change, and price per tonne.

HEATING OIL

Table with columns for heating oil type (Heating Oil, Fuel Oil), price change, and price per gallon.

NATURAL GAS

Table with columns for natural gas type (Natural Gas, Propane), price change, and price per million Btu.

COFFEE

Table with columns for coffee type (Coffee, Coffee Beans), price change, and price per hundred pounds.

SUGAR

Table with columns for sugar type (Sugar, Sugar Beets), price change, and price per hundred pounds.

WHEAT

Table with columns for wheat type (Wheat, Wheat Flour), price change, and price per bushel or tonne.

SOYBEANS

Table with columns for soybean type (Soybeans, Soybean Meal), price change, and price per bushel or tonne.

CORN

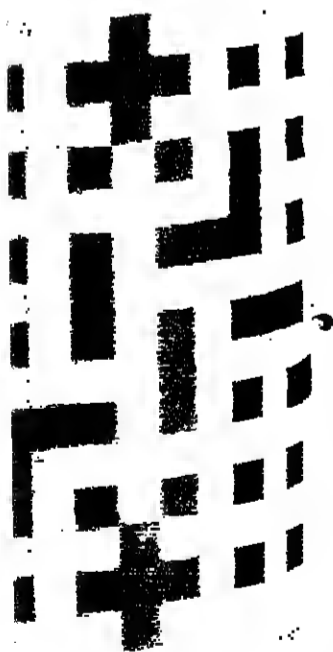
Table with columns for corn type (Corn, Corn Meal), price change, and price per bushel or tonne.

In firm
Kunal Bose

exchange
little-known market

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INTERNATIONAL CAPITAL MARKETS

US Treasuries flat ahead of employment data

By Lisa Branstetter in New York, and Samer Iskandar and Philip Coggan in London

US Treasury prices were mostly flat in early trading yesterday as investors held their positions and waited for Friday's release of May jobs figures.

The closely watched Knight Ridder/Commodity Research Bureau index fell 1.17 to 248.88. In each of the past three months the bond market was followed by stronger-than-expected employment figures, so traders were anxiously awaiting tomorrow's figures.

One possible structure which has been mentioned by investors is for all the inflation proofing to be paid in the form of income every year, rather than have the capital value of the bond increase in line with the index.

Among Europe's high yielding markets, only Sweden ended the session marginally higher, the 10-year benchmark closing at 85.55, up 0.06. Italian bonds closed with limited losses.

Equity market is attracting investors away from bonds. He believes recent equity purchases were mainly undertaken by foreign investors, while "domestic institutional investors are more likely to be taking profits on shares to invest more in bonds".

Hammerson issue approved by ABI

By Antonio Sharpe
A £100m convertible bond offering launched yesterday by Hammerson, the UK property company, appeared to show that the resolve among UK shareholders to defend their pre-emption rights was softening.

Share capital, also without pre-emption. Hammerson's convertible, which relates to 8 or 9 per cent of its issued share capital, was approved by the Association of British Insurers - which ensures that pre-emption rights are not violated - because the company said the proceeds would help finance its recent buy-back.

Sterling offering from Toyota

Activity in the eurobond market slowed yesterday ahead of today's Corpus Christi holiday in Germany and tomorrow's release of US employment data and Japan's quarterly Tankan report.

deemed that spread to be tight. Lead manager BZW said it compared well with other outstanding deals. Moreover, Toyota's rarity value in the sterling sector, which it last tapped in 1988, was likely to lend the issue support, he said.

would get placed among Swiss retail investors, with the spread set to tighten back. Norway's Christiania Bank issued \$150m of subordinated floating-rate step-up bonds callable after seven years.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Amount, Coupon, Price, Maturity, Fees, Spread, Book-runner. Lists various international bond issues such as US Dollars, Yen, and Australian Dollars.

Panamanian Brady bonds perform strongly

By Richard Lapper, Capital Markets Editor
Progress on debt restructuring agreements helped the bonds and secondary market debt of Panama, Russia and Peru perform strongly last month, according to the J.P. Morgan Emerging Markets Bond Index Monitor (EMBI).

index of 1.73 per cent. Bulgarian Brady bonds also outperformed, rising by 5.4 per cent, largely as a result of indications that the country will be able to secure a package of international loans from the multilateral institutions.

INTERNATIONAL BONDS

Table with columns: Country, Coupon, Price, Yield, Week, Month. Lists international bond data for Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, US Treasury, and ECU.

Table with columns: Country, Coupon, Price, Yield, Week, Month. Lists international bond data for Italy and ECU.

Table with columns: Country, Coupon, Price, Yield, Week, Month. Lists international bond data for Italy.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Index, Price, Yield, Change. Lists fixed interest indices such as 1 Up to 5 years, 2 5-15 years, 3 Over 15 years, 4 Intermediate, and 5 All stocks.

FT-FIXED INTEREST INDICES

Table with columns: Index, Price, Yield, Change. Lists fixed interest indices such as Govt. Secs. (UK), Fixed Interest, and FT/FISMA International Bond Service.

US INTEREST RATES

Table with columns: Rate, Bid, Offer, Change. Lists US Treasury bill and bond yields.

Table with columns: Rate, Bid, Offer, Change. Lists US Treasury bill and bond yields.

Table with columns: Rate, Bid, Offer, Change. Lists US Treasury bill and bond yields.

UK GILTS PRICES

Table with columns: Maturity, Bid, Offer, Change. Lists UK gilt prices for various maturities.

CONVERTIBLE BONDS

Table with columns: Issued, Curr., Bid, Offer, Change. Lists convertible bonds with their current prices and yields.

OTHER FIXED INTEREST

Large table with columns: Issued, Curr., Bid, Offer, Change. Lists various international fixed interest securities from different countries.

MARKETS REPORT Exchange

MARKETS REPORT

Exchanges quiet as markets wait for key reports

By Philip Gawth

Foreign exchanges had a quiet day yesterday with traders and investors content to wait on the sidelines ahead of the release tomorrow of the May payrolls report in the US, and the May Tankan survey in Japan.

There was little price movement with dollar/D-Mark confined to a narrow 60 basis point trading range in Europe. In the absence of any substantive issues to trade off, markets were dominated by renewed discussion of the extent to which political or business considerations might influence the dollar/yen rate.

The dollar finished in London at DM1.5293 from DM1.5318. Against the yen it closed at Y108.845, from Y109.025.

In Europe the main movement came from the Spanish peseta which continued its recent retreat, closing at Ptas84.67 against the D-Mark.

Mr Ptas84.33. The Swedish krona also slipped further, finishing at SKr4.396, from SKr4.372.

Sterling's rally over the past week paused to draw breath, with the trade weighted index finishing slightly lower at 86.4 from 86.5. Against the D-Mark the pound closed at DM2.3676, from DM2.3741, while against the dollar it finished at \$1.5482, from \$1.5498.

The discussion about the dollar/yen rate has been fuelled by comments from people on the margins of power. They include Mr Fred Bergsten, the US economist with close ties to the Clinton administration, and Mr Paul Volcker, former chairman of the US Federal Reserve.

Mr Bergsten said in a speech in New York...

Mr Volcker said on Tuesday that the US would become concerned if the dollar rose above Y110, and might take steps to check its advance. This view gained support from the chief economist of Ford Motor Corporation, Mr Martin Zimmerman, who said the strength of the dollar would harm exports. This view was followed by news that Chrysler had made representations to the White House that if the dollar got too strong, it would put the company at "quite a substantial disadvantage".

This line of reasoning was disputed, however, by Mr Eisuke Sakakibara, the Japanese minister of finance official, who said: "I think the people who are in office now have a slightly different idea. They are at the forefront of the bleeding hearts when the dollar rises too high."

Mr Malcolm Barr, economist at Chase, said it needed to be...

previously compared to a 17 per cent rise at Chrysler, and 7 per cent at GM.

Mr Barr said it was very difficult to argue that the US authorities would be particularly upset if the dollar went through Y110. A 5-10 per cent move either way should not bother the two countries. He said it was doubtful whether holding the dollar below Y110 was "a flame worth the candle in the long term." The main caveat is that if the exchange rate becomes an election issue, political dynamics could change attitudes.

Comments today from Mr Helkanen, deputy governor of the Swedish Riksbank, suggested that it was unlikely Sweden would make an effort to rejoin the European exchange rate mechanism before the end of the year. He stressed that the economy and exchange rate would need to be stable for some time beforeERM entry could be considered.

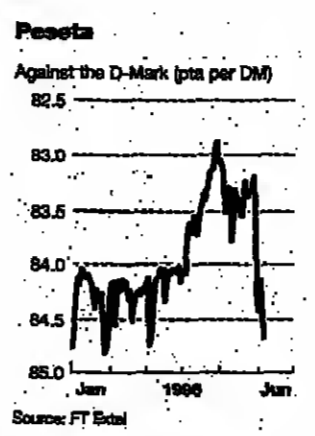
Elsewhere in Europe the \$3.18bn rise in the Bank of Spain's foreign exchange reserves attracted some comment. The rise was interpreted by some as confirmation that the Spanish authorities have been trying to reverse the rally in the peseta.

reminded that much of the discussion was being conducted by people "on the peripheries of officialdom". As for the motor companies, "this is fairly predictable stuff. They are at the forefront of the bleeding hearts when the dollar rises too high."

Mr Helkanen said that the Riksbank was not planning to rejoin the European exchange rate mechanism before the end of the year. He stressed that the economy and exchange rate would need to be stable for some time beforeERM entry could be considered.

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Source: FT Intel

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Country, Currency, Closing mid-point, Change on day, Bid/offer spread, Day's high/low, One month rate, Three months rate, Six months rate, One year rate, %PA, Bank of England index.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Country, Currency, Closing mid-point, Change on day, Bid/offer spread, Day's high/low, One month rate, Three months rate, Six months rate, One year rate, %PA, J.P. Morgan index.

CROSS RATES AND DERIVATIVES

Table with columns: Country, Currency, Bid, Offer, DM, SF, Y, S, CS, Y, Ecu.

UK INTEREST RATES

Table with columns: Term, Rate, Bid, Offer, High, Low, Est. vol, Open int.

EMU CURRENCY UNIT RATES

Table with columns: Country, Rate, Bid, Offer, High, Low, Est. vol, Open int.

BASE LENDING RATES

Table with columns: Institution, Rate, Bid, Offer, High, Low, Est. vol, Open int.

WORLD INTEREST RATES

Table with columns: Money Rates, One night, One month, Three months, Six months, One year, Loan rate, Repo rate.

LIBOR FT London

Table with columns: Instrument, Rate, Bid, Offer, High, Low, Est. vol, Open int.

EURO CURRENCY INTEREST RATES

Table with columns: Country, Currency, Bid, Offer, High, Low, Est. vol, Open int.

OTHER CURRENCIES

Table with columns: Country, Currency, Bid, Offer, High, Low, Est. vol, Open int.

THREE MONTH EURO DOLLAR FUTURES

Table with columns: Date, Bid, Offer, High, Low, Est. vol, Open int.

THREE MONTH EURO SWISS FRANC FUTURES

Table with columns: Date, Bid, Offer, High, Low, Est. vol, Open int.

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, share price, and change.

BANKS, MERCHANT

Table listing companies in the Banks, Merchant sector with columns for company name, share price, and change.

BANKS, RETAIL

Table listing companies in the Banks, Retail sector with columns for company name, share price, and change.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Rest sector with columns for company name, share price, and change.

BUILDING & CONSTRUCTION

Table listing companies in the Building & Construction sector with columns for company name, share price, and change.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Mats. & Merchants sector with columns for company name, share price, and change.

CHEMICALS

Table listing companies in the Chemicals sector with columns for company name, share price, and change.

DISTRIBUTORS

Table listing companies in the Distributors sector with columns for company name, share price, and change.

ENGINEERING

Table listing companies in the Engineering sector with columns for company name, share price, and change.

ENGINEERING - Cont.

Table listing companies in the Engineering - Cont. sector with columns for company name, share price, and change.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector with columns for company name, share price, and change.

ELECTRICITY

Table listing companies in the Electricity sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical EQPT sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing companies in the Electronic & Electrical EQPT - Cont. sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT - Cont.

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ENGINEERING

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Table listing companies in the Engineering sector with columns for company name, share price, and change.

ENGINEERING - Cont.

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ENGINEERING, VEHICLES

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ELECTRONIC & ELECTRICAL EQPT

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ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing companies in the Electronic & Electrical EQPT - Cont. sector with columns for company name, share price, and change.

EXTRACTIVE INDUSTRIES - Cont.

Table listing companies in the Extractive Industries - Cont. sector with columns for company name, share price, and change.

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EXTRACTIVE INDUSTRIES - Cont.

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HOUSEHOLD GOODS

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INVESTMENT TRUSTS - Cont.

Table listing companies in the Investment Trusts - Cont. sector with columns for company name, share price, and change.

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INVESTMENT TRUSTS - Cont.

Table listing companies in the Investment Trusts - Cont. sector with columns for company name, share price, and change.

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INV TRUSTS SPLIT CAPITAL - Cont.

Table listing investment trusts with columns for Name, Price, and % Change.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies with columns for Name, Price, and % Change.

OTHER FINANCIAL - Cont.

Table listing other financial companies with columns for Name, Price, and % Change.

PROPERTY - Cont.

Table listing property companies with columns for Name, Price, and % Change.

SUPPORT SERVICES - Cont.

Table listing support services companies with columns for Name, Price, and % Change.

AM - Cont.

Table listing American companies with columns for Name, Price, and % Change.

LIFE ASSURANCE

Table listing life assurance companies with columns for Name, Price, and % Change.

MEDIA

Table listing media companies with columns for Name, Price, and % Change.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies with columns for Name, Price, and % Change.

RETAILERS, FOOD

Table listing food retailers with columns for Name, Price, and % Change.

RETAILERS, GENERAL

Table listing general retailers with columns for Name, Price, and % Change.

PHARMACEUTICALS

Table listing pharmaceutical companies with columns for Name, Price, and % Change.

TELECOMMUNICATIONS

Table listing telecommunications companies with columns for Name, Price, and % Change.

TEXTILES & APPAREL

Table listing textiles and apparel companies with columns for Name, Price, and % Change.

AMERICANS

Table listing American companies with columns for Name, Price, and % Change.

CANADIANS

Table listing Canadian companies with columns for Name, Price, and % Change.

SOUTH AFRICANS

Table listing South African companies with columns for Name, Price, and % Change.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts with columns for Name, Price, and % Change.

INVESTMENT COMPANIES

Table listing investment companies with columns for Name, Price, and % Change.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies with columns for Name, Price, and % Change.

OIL, INTEGRATED

Table listing integrated oil companies with columns for Name, Price, and % Change.

PHARMACEUTICALS - Cont.

Table listing pharmaceutical companies (continued) with columns for Name, Price, and % Change.

PROPERTY

Table listing property companies with columns for Name, Price, and % Change.

RETAILERS, GENERAL - Cont.

Table listing general retailers (continued) with columns for Name, Price, and % Change.

SUPPORT SERVICES

Table listing support services companies with columns for Name, Price, and % Change.

TOBACCO

Table listing tobacco companies with columns for Name, Price, and % Change.

TRANSPORT

Table listing transport companies with columns for Name, Price, and % Change.

WATER

Table listing water companies with columns for Name, Price, and % Change.

GUIDE TO LONDON SHARE SERVICE

Price for the London Share Service... Company identifications are based on those used for the FT-SE Actuaries Share Index... Includes details on market conditions, calculations, and symbols.

From automotive to automation, Rockwell gets your business moving.



FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda funds including Fidelity Currency Funds Ltd, Fidelity International Funds Ltd, and others with columns for fund name, price, and change.

BERMUDA (REGULATED)**

Table listing regulated Bermuda funds including Bermuda Intl Investment Management Ltd, Bermuda Intl Investment Management Ltd, and others.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey funds including All Investment Managers (Guernsey) Ltd, All Investment Managers (Guernsey) Ltd, and others.

GUERNSEY (REGULATED)**

Table listing regulated Guernsey funds including All Investment Managers (Guernsey) Ltd, All Investment Managers (Guernsey) Ltd, and others.

GUERNSEY (REGULATED)**

Table listing regulated Guernsey funds including ANZ Mutual Co (Guernsey) Ltd, ANZ Mutual Co (Guernsey) Ltd, and others.

IRELAND (SIB RECOGNISED)

Table listing Ireland funds including All Fund Management Ltd, All Fund Management Ltd, and others.

IRELAND (REGULATED)**

Table listing regulated Ireland funds including All Fund Management Ltd, All Fund Management Ltd, and others.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man funds including Dragon Korea Fund Plc, Dragon Korea Fund Plc, and others.

ISLE OF MAN (REGULATED)**

Table listing regulated Isle of Man funds including Dragon Korea Fund Plc, Dragon Korea Fund Plc, and others.

JERSEY (SIB RECOGNISED)

Table listing Jersey funds including AXA Equity & Low Yield Fund Mgrs, AXA Equity & Low Yield Fund Mgrs, and others.

JERSEY (REGULATED)**

Table listing regulated Jersey funds including AXA Equity & Low Yield Fund Mgrs, AXA Equity & Low Yield Fund Mgrs, and others.

LUXEMBOURG (SIB RECOGNISED)

Table listing Luxembourg funds including AXA AMRO Funds (S), AXA AMRO Funds (S), and others.

LUXEMBOURG (REGULATED)**

Table listing regulated Luxembourg funds including AXA AMRO Funds (S), AXA AMRO Funds (S), and others.

Fidelity Funds - Detail

Detailed table for Fidelity Funds listing various fund names, prices, and changes.

Luxembourg (Regulated)**

Table listing regulated Luxembourg funds including various international and domestic funds.

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FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 673 4378 for more details.

Main table containing various fund listings with columns for fund name, price, and other details. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES
Prices are in British pounds unless indicated and based on the latest available information.
Fund prices are shown in pence and are subject to change.

LONDON STOCK EXCHANGE

MARKET REPORT

Fund raising fears again overshadow equities

By Steve Thompson, UK Stock Market Editor

The widespread enthusiasm that gripped London's equity market on Tuesday afternoon reappeared briefly yesterday but evaporated only minutes after the market opened.

At the end of a session that promised much, but eventually delivered precious little, the FT-SE 100 index displayed a disappointing 1.8 points decline at 3,753.4. Sentiment was worse in the market's second lines, where the FT-SE Mid 250 index fell sharply, closing 16.5 off at 4,476.0.

Dealers described the market's disappointing performance to persistent worries about a potential substantial fund raising operation. The market's leading candidates to launch a big rights issue included BBA - which confirmed recent market rumours that it intended bidding for Lucas, the motor components group - and Prudential, the insurance company.

The FT-SE 100 index closed at 3,753.4, down 1.8 points from 3,755.2. The FT-SE Mid 250 index closed at 4,476.0, down 16.5 points from 4,492.5. The FT-SE All-Share index closed at 1,895.49, down 1.80 points from 1,897.29.

of the Footsie performance league. A share buyback by PowerGen, involving the purchase of some 36m shares, saw some of the market's big institutions switching the proceeds into National Power.

FT-SE All-Share Index

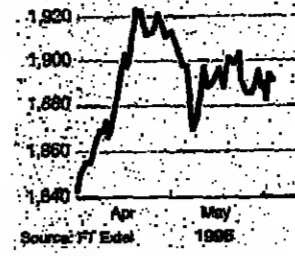


Table with 3 columns: Index, Change, % Change. FT-SE All-Share: 1,895.49, -1.80, -0.09. FT-SE 100: 3,753.4, -1.8, -0.05. FT-SE Mid 250: 4,476.0, -16.5, -0.37.

Equity shares traded

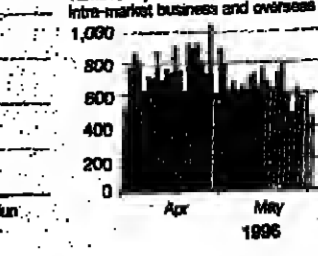


Table with 3 columns: Index, Change, % Change. FT Ordinary Index: 2,792.9, +0.7. FT-SE A Non Fin pri: 16.80, 16.85. FT-SE 100 Fin Jun: 3,756.0, -3.5.

United News 'on the prowl'

Anticipation of a knockout blow from United News & Media sent Blenheim, the exhibition organiser, shooting 70 higher to 40p.

Lucas, which recently announced plans to merge with Variox of the US, raced ahead by 8 to a new high of 254p in 12m traded. It was also a busy day in the options pits for the group.

In marked contrast, BBA moved even more rapidly in the opposite direction, tumbling 21% to 393p to extend its decline to almost 10 per cent in two days.

The BBA management was said yesterday to be lobbying hard among its institutional shareholders. A cool response was thought to be widespread. Lucas dismissed the prospect of a deal out of hand.

The view was that Lord Hollick had his sights on Blenheim, when head of MAI, but did not have the muscle to make a move until the recent merger with United. It was also felt that, as some 40 per cent of Blenheim's shares are very tightly held by stakeholders closely linked with the company, the bidder will have to pay dearly for the acquisition.

Water disappoints Results from Yorkshire Water were in line with market expectations but the shares roared 16 to 718p.

Any immediate plans for a share buyback were dashed by the management, which acknowledged the need to restore battered customer confidence following last summer's drought and Monday's stinging comments from the regulator.

Analysts said there would not be a buyback before December and takeover arduous had been dampened by the stock's valuation. One sector specialist said: "Of the stocks that are not being bid for, this is the most highly rated in the sector. It should come back all the way to 600p."

BBA tumbles Shares in BBA dropped for the second day running, as news that it was considering a bid for Lucas Industries met with outright disbelief from City engineering teams.

Yorkshire was also affected, along with the rest of the sector, by a reaffirmation from the Labour party that it would introduce a windfall tax on the privatised water companies.

Table with 3 columns: Index, Change, % Change. FT-SE All-Share: 1,895.49, -1.80, -0.09. FT-SE 100: 3,753.4, -1.8, -0.05. FT-SE Mid 250: 4,476.0, -16.5, -0.37.

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CONTRACTS & TENDERS

Information meeting about public tender for DCS1800 licenses

A new mobile communications bill has been passed in Denmark. On 15 July 1996 the tender procedure is expected to commence through publication of a draft tender document on the basis of which potential bidders may submit letters of interest.

The National Telecom Agency therefore invites potential bidders to a public information meeting Wednesday 19 June 1996, 1PM to 5PM at Gemmel Dok, Strandgade 27B, 1401 Copenhagen K.

At the meeting the National Telecom Agency will present the framework of the coming public tender. Regulatory and other general conditions will be outlined and evaluation criteria will be touched upon.

Written notification of attendance should be given to the National Telecom Agency, Holsteinsgade 63, DK-2100 Copenhagen Ø, Denmark, attn. Lars Sten Jørgensen (fax no. +45 35 43 62 33) no later than noon, Wednesday 12 June 1996.

FT GOLD MINES INDEX

Table with 3 columns: Index, Change, % Change. FT Gold Mines Index: 2,318.21, -2.2, -0.09.

Table with 3 columns: Index, Change, % Change. FT-SE All-Share: 1,895.49, -1.80, -0.09. FT-SE 100: 3,753.4, -1.8, -0.05.

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FT-SE Actuarial Share Indices

Table with 3 columns: Index, Change, % Change. FT-SE 100: 3,753.4, -1.8, -0.05. FT-SE Mid 250: 4,476.0, -16.5, -0.37.

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Major Stocks Yesterday

Table with 3 columns: Stock Name, Change, % Change. BBA: -21.0, -5.1. Lucas: +8.0, 2.4.

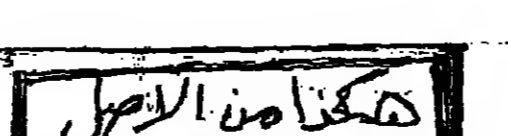
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Large advertisement for National Telecom Agency Denmark, featuring the text 'Information meeting about public tender for DCS1800 licenses' and 'A new mobile communications bill has been passed in Denmark'.

Large table containing FT-SE Actuarial Share Indices, FT-SE Actuarial All-Share, and FT-SE Actuarial 350 Industry baskets, with columns for Index, Change, % Change, and various sub-indices.



WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 5 / Sec)

Table of Austrian stock market data including indices like Austria 1000, Austria 2000, and various individual stock prices.

GERMANY (Jun 5 / Dm)

Table of German stock market data including indices like DAX, DAX 100, and various individual stock prices.

FRANCE (Jun 5 / Fr)

Table of French stock market data including indices like CAC 40, CAC 100, and various individual stock prices.

FINLAND (Jun 5 / Mk)

Table of Finnish stock market data including indices like Helsinki 20, Helsinki 40, and various individual stock prices.

NETHERLANDS (Jun 5 / Fl)

Table of Dutch stock market data including indices like AEX, AEX 100, and various individual stock prices.

SPAIN (Jun 5 / Ptas)

Table of Spanish stock market data including indices like IBEX 35, IBEX 100, and various individual stock prices.

GREECE (Jun 5 / Dracmas)

Table of Greek stock market data including indices like Athens 100, Athens 200, and various individual stock prices.

ITALY (Jun 5 / Lira)

Table of Italian stock market data including indices like FTSE MIB, FTSE 100, and various individual stock prices.

NETHERLANDS (Jun 5 / Fl)

Table of Dutch stock market data including indices like AEX, AEX 100, and various individual stock prices.

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Advertisement for Peregrine featuring a bird in flight and the text: 'Asian Focus. Global Distribution. Peregrine has the world's largest team dedicated to the international distribution of Asian securities. PEREGRINE'.

INDICES

Table of various international stock indices including Argentina, Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, UK, and USA.

INDEX FUTURES

Table of index futures data for CAC-40, DAX, and S&P 500, showing open, high, low, and close prices.

US INDICES

Table of US stock indices including Dow Jones, S&P 500, NYSE, and various sector indices like Tech, Health, and Energy.

NEW YORK ACTIVE STOCKS

Table of active stocks in New York, listing stock names, prices, and changes.

NETHERLANDS (Jun 5 / Fl)

Table of Dutch stock market data including indices like AEX, AEX 100, and various individual stock prices.

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TOKYO - MOST ACTIVE STOCKS Wednesday, June 5, 1996

Table of most active stocks in Tokyo, listing stock names, prices, and changes.

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Advertisement for Hewlett-Packard with the headline 'Vault ahead' and the text 'If the business decisions are yours, the computer system should be ours.' Includes the HP logo and website URL.

Continued on next page

4 pm close June 5

NYSE PRICES

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page' and 'T'.

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'T' and 'U'.

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'U', 'V', 'W', 'X', 'Y', and 'Z'.

NASDAQ NATIONAL MARKET

4 pm close June 5

Table of NASDAQ stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', and 'Z'.

Table of NASDAQ stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', and 'Z'.

Table of NASDAQ stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', and 'Z'.

AMEX PRICES

4 pm close June 5

Table of AMEX stock prices including columns for stock name, price, change, and volume.

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Advertisement for 'Have your FT hand delivered in MOSCOW' with contact information for Financial Times World Business Newspaper.

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AMERICA

Dow flat as equities play waiting game

Wall Street

US share prices were flat in early trading, mirroring the sentiment on the bond and currency markets as investors awaited tomorrow's figures on May employment, writes Lisa Branson in New York.

Cowen analyst lowered his estimate of subscriber growth at the online service. Bally Entertainment added \$14 or 5 per cent at \$254 on renewed speculation that the company was in merger talks with Hilton Hotels.

The TSE 300 composite index was 24.11 lower by noon at 5,200.40 in trading volume of 45.4m shares.

SOUTH AFRICA

Worries about the political and economic outlook held Johannesburg back in subdued trade, with gold shares also bearing the brunt of sharply lower precious metals prices.

EUROPE Spotlight on losers as Paris holds firm

Share prices swung both ways in PARIS, with the spotlight on the losers, although the CAC40 index rose by a token 4.35 to 2,115.25, in turnover of FF4.6bn.

Analysts said institutions were largely absent from the market, although they hoped that the IBCA foreign currency rating for South Africa - unchanged at BB - would provide some support today.

FT-SE Actuaries Share Indices

Table with columns: Jun 6, Hourly change, Open, 10.30, 11.00, 12.00, 13.00, 14.00, 15.00, Close. Rows include FT-SE 100, FT-SE 250, FT-SE 350.

marked sharply lower. The SMI index picked up 2.9 to 3,572 but Roche certificates fell SF95 to SF93.500 and Nestlé gave up SF12 to SF11.11.

THE EUROPEAN SERIES

Table with columns: Jun 6, Hourly change, Open, 10.30, 11.00, 12.00, 13.00, 14.00, 15.00, Close. Rows include DAX, CAC40, Nikkei, Hang Seng, etc.

Deutsche Bank suffered for its contribution of DM550m to the DM1.05bn RHD rescue plan, falling 93 pps to DM71.58.

ASIA PACIFIC

Y90 to Y6,900 and Matsushita Electric Industrial firmed Y10 to Y1,570. Some semiconductor shares were lower on profit-taking.

Large shipbuilder and steel issues eased on profit-taking. Nippon Steel dipped Y6 to Y397 after Mitsubishi Heavy Industries lost Y6 to Y397.

Mexican shares consolidate rally

Mexico City consolidated Tuesday's advance, which followed several sessions of losses, which created enough momentum to override a rise in primary interest rates at the central bank's weekly auction of Cetes, or Treasury bills, late on Tuesday.

Hylisemex moved ahead 50 centavos to 32 pesos. BIENOS AIRES marked time at the US jobs data, due tomorrow, and as an absence of foreign demand kept the lid on domestic buying.

Demand for the telecoms utility PTCL lifted sentiment in KARACHI, but Pakistan State Oil, too, outperformed on a street as foreign buyers anticipated a rise in oil product prices in the 1996/97 budget.

Karachi up 1.6% with big blue chips in lead

The dollar's rise to above Y100 and the overnight rally on Wall Street were good for sentiment, but equities were mixed after profit-taking by investment trusts and other domestic institutions, writes Emilio Terazono in Tokyo.

Tokyo

The Nikkei 225 average gained a net 23.31 at 21,881.43 after extremes for the day of 21,782.36 and 21,985.58. Yen depreciation lifted export oriented high-technology, car and shipping companies before afternoon profit-taking came in at higher levels.

ROUNDUP

The unravelling of economic policy objectives by the new Indian government allowed BOMBAY to recoup early losses.

SHANGHAI

The Shanghai Composite index closed 49.198, or 7.25 per cent, higher at 727.422 but the BSE declined 0.700, or 1.45 per cent, to 47.17.

WARSAW

Warsaw was broadly lower, although gains by some index heavy stocks pushed the WIG 45.1 higher to 12,359.9 in light trade ahead of a public holiday today.

AMSTERDAM

AMSTERDAM scraped to a new record high, closing 2.08 better at 570.89, compared with last Friday's previous all-time peak of 570.09.

EMERGING MARKETS: IPC WEEKLY INVESTABLE PRICE INDICES

Table with columns: Market, No. of stocks, May 31 1996, Dollar terms, % Change over week, % Change on Dec '95, Local currency terms, % Change over week, % Change on Dec '95.

Indices are calculated at end-week, and weekly changes are percentage movements from the previous Friday. Base date Dec 1995 (except those noted).

Sri Lanka's stocks plunged an eight-month low yesterday. Local investors were unable to escape from the pessimism generated by a series of setbacks, the latest of which was last week's power utility workers' strike which blacked out the island for three days.

INDONESIA

The dollar's rise to above Y100 and the overnight rally on Wall Street were good for sentiment, but equities were mixed after profit-taking by investment trusts and other domestic institutions, writes Emilio Terazono in Tokyo.

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FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries, NatWest Securities Ltd. was a co-funder of the indices.

Table with columns: NATIONAL AND REGIONAL MARKETS, US Dollar, Day's Change, Pound Sterling, Yen, DM, Local Currency, Local Index, US Dollar Index, Monday June 4 1996, % Change, % High, % Low, % approx.

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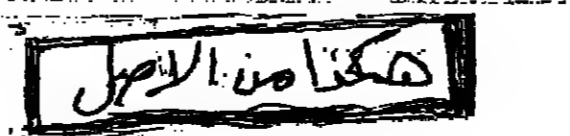
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First three months 1996 strong increase net profit: + 42% to NLG 736 million

Table with columns: (in millions of guilders, except for amounts per share), First three months 1996, First three months 1995, %.

ING Group's net profit for the first three months of 1996 showed a strong increase. Profit from the banking operations was substantially higher compared with the first three months of 1995 when the banking results were somewhat under pressure.

ING GROUP logo and contact information: The report for the first three months 1996 can be obtained at the following address: ING Group, P.O. Box 810, 1000 AV Amsterdam, The Netherlands. Telephone: (+31) 20 541 54 71, Fax: (+31) 20 541 54 51.



6 Brazil: The state of Bahia

BAHIA

Mirror to the motherland

While a synthesis of African, European and indigenous cultures gives the state a unique character, its social and economic problems reflect patterns seen at a national level, says Angus Foster

The Brazilian state of Bahia is the product, and the symbol, of the country's best and worst.

An area the size of France, Bahia has a rich culture and great natural wealth. But most Bahians still live in poverty, in one of the world's most unequal societies.

The state's government hopes free markets, tourism and new industries such as cellulose can provide the jobs and tax revenues for the future. But unless Bahia's huge social problems are also addressed, the government's claims to be making progress will remain in doubt.

Bahians like to remember that theirs is the cradle of modern Brazilian civilisation. The first Portuguese explorers landed near the southern city of Porto Seguro in 1500. Salvador, the state's capital, was capital of all Brazil until 1763. Wealth from gold, sugar and millions of African slaves turned Salvador into the richest city in the Americas, and built Baroque churches which earned it the sobriquet of "the black Rome".

The Portuguese, who were finally expelled in 1822, left one of their most impressive collections of colonial architecture, once crumbling but now restored, in the district of Pelourinho.

More recently, Bahia has been the nursery for national idols such as the singer-songwriters Caetano Veloso and Gilberto Gil and for Brazil's most famous living author, Jorge Amado.

In the past decade, a reworking of Bahia's synthesis of African, European and indigenous cultures has created *axé* music, now being exported throughout Latin America, black con-

sciousness movements such as Oludum and Filhos de Gandhi, and an annual carnival which is being promoted as an alternative to Rio de Janeiro.

"The Bahia is a different citizen, formed by the diversity of races, and moulded with his own characteristics," says Antonio Carlos Magalhães, a three-time state governor and one of Brazil's most powerful politicians. "Maybe it's something in the light in Bahia, or something which nature has given us," he says.

And yet, despite so many reasons for pride, Bahia has had a bad century, along with much of the poor north-east of Brazil. Traditional industries such as sugar and cocoa have suffered from underinvestment and international competition.

The industrialisation of Brazil's south meant the central government was only sporadically concerned about the north-east, which slipped behind in terms of wealth and social indicators.

These factors encouraged political systems where the state government distributed patronage in return for votes and cared little for its citizens outside election periods.

Mr Magalhães retains an iron grip on the state, where he is usually referred to by his initials of ACM. Opponents often claim he is partly responsible for Bahia's underdevelopment. "Poverty allows political domination," says Lidice da Mata, the mayoress of Salvador.

But it is the whole Bahian political system, rather than individuals, that is out of date. As elsewhere in Brazil, politics is organised around individuals rather than ideology, political parties are weak and elec-

tion fraud is common.

The system, by allowing Mr Magalhães' preeminence, has stunted the development of effective opposition and interest groups to represent the many excluded sectors of society. But most opposition politicians, on the occasions they have held power, have employed the same populist initiatives Mr Magalhães has perfected.

"There's very little difference between any of our politicians - it's just that ACM is so much better than the rest," says one analyst.

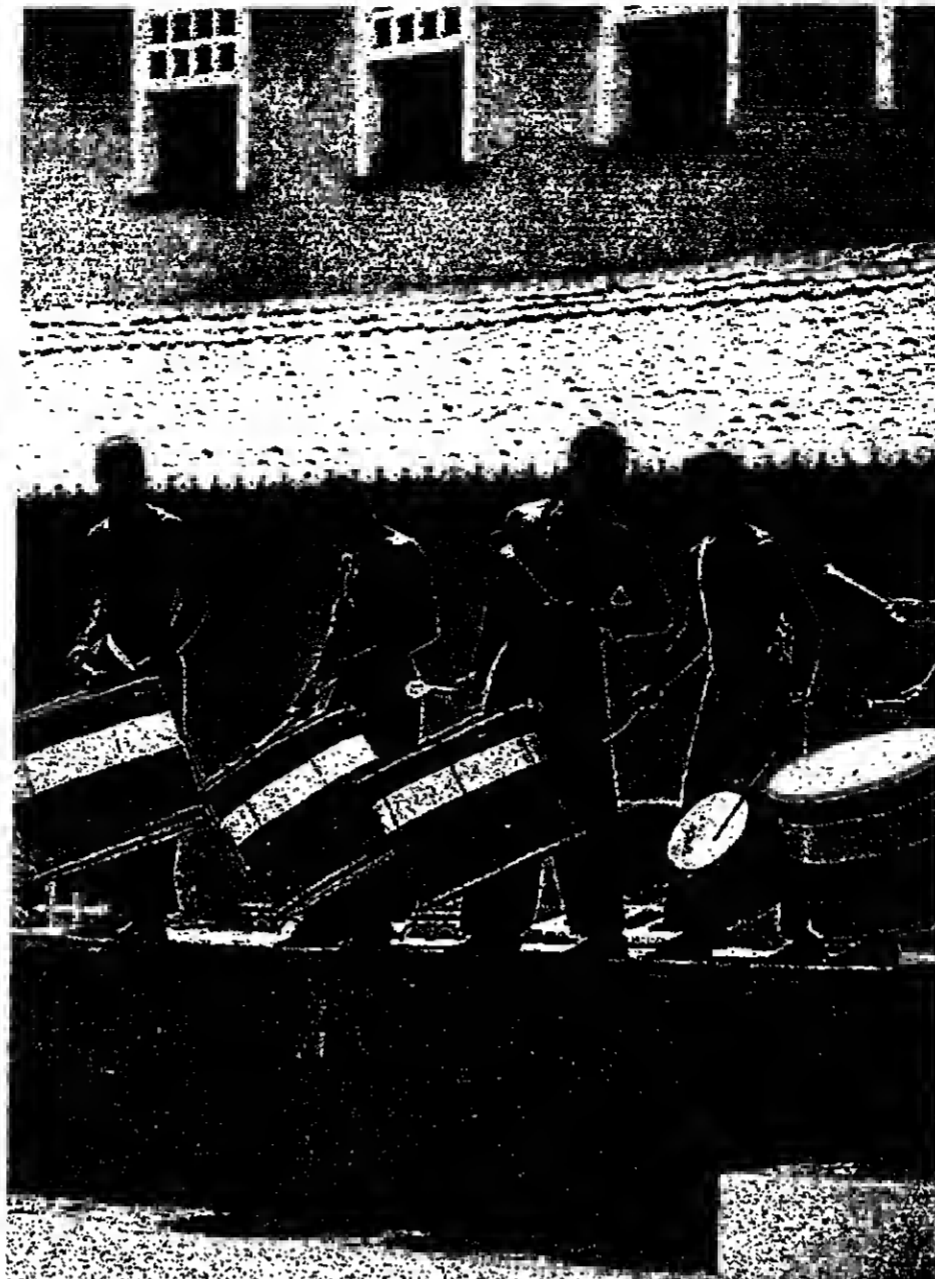
Despite its previous reliance on agriculture, Bahia's economy has made progress in diversifying. A petrochemical complex near Salvador, installed under Brazil's 1964-1985 military government to spur regional development, is Brazil's largest.

The state also has important metals and service industries such as banking. Its economy, the biggest in northern Brazil, accounts for half the north-east's exports.

Paulo Souto, elected as governor in 1994 thanks to Mr Magalhães' blessing, says agro-industry and tourism are the hopes for the future. Grain production, mainly in the west of the state, has quadrupled to 2m tonnes in the past five years while irrigation projects along the São Francisco river have turned the state into an important producer of tropical fruits. Two forestry projects in the south of the state will start producing cellulose, probably for export, early next century.

However, these projects are generating few jobs and, for demographic and social reasons, the creation of employment is an urgent priority. Of the state's 12m population, probably about 5m live in rural areas, the largest such population in any Brazilian state.

More than 40 per cent of Bahia's jobs are in the agricultural sector, compared to less than 10 per cent in some rich



Richt heritage: black consciousness movements such as Oludum have emerged in the past decade. *Alain Vireux*

southern states. This suggests that in coming years the sector will shed rather than create jobs, as farming techniques are modernised.

Meanwhile, Bahia's 12m population is growing at 2 per cent annually and its cities are growing at 3.75 per cent, both above the Brazilian national average.

Unemployment is difficult to measure accurately because of the informal economy, but studies suggest 40 per cent of the economically active population is unemployed or under-

employed.

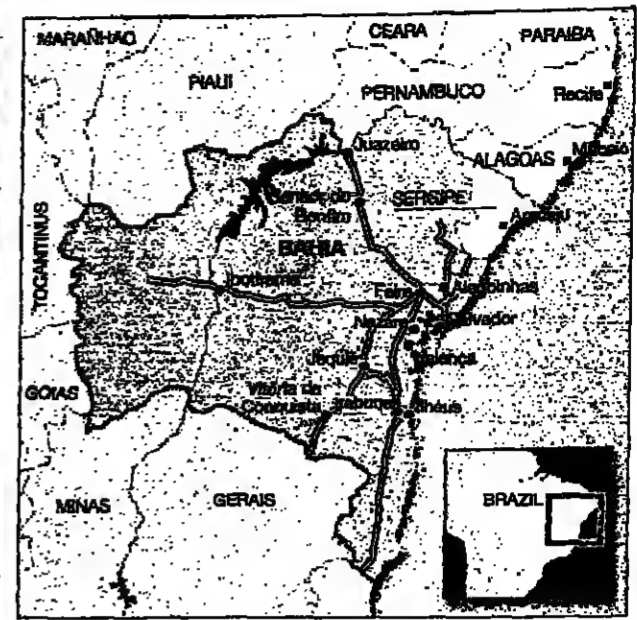
The critical need to create jobs, especially in the cities, explains the government's enthusiasm for tourism. As well as its cultural heritage, Bahia also possesses a spectacular coastline, some of the best beaches in Brazil and an excellent climate.

Tourist arrivals have been growing, but not as quickly as first hoped. One problem in attracting international tourists is Brazil's size. Most visitors want to see Rio and the Amazon ahead of Bahia.

Domestic tourism is constrained by Brazil's expensive internal flights while the poor quality of the road network makes bus travel long and painful.

"Tourism is perfect for us, we have the vocation for it, but the infrastructure is still poor," says Renata Proserpio at the government's economic studies superintendency.

Brazil's famously unequal wealth distribution is exemplified by Bahia. According to 1990 government figures, the poorest 20 per cent of Bahians



survive with just 3 per cent of total income. The richest 20 per cent, meanwhile, receive 70 per cent, making Bahia one of the most unequal societies in Brazil and the world. The figures also show that the huge investments in petrochemicals, planned to develop the whole region, benefited few people.

Brazil's recent economic stability will have channelled extra income to the very poor, and some economists say income figures can mislead because families in the poor interior often survive by subsistence farming.

But millions of Bahians continue to live on the minimum salary of R\$112 a month, or less. Millions more live in shanty towns around Salvador and other cities, usually without water, sewerage or basic health services. According to government figures, illiteracy among the population of five years and over fell only 2 percentage points to 41 per cent in the decade to 1991.

The government says progress has been made tackling social problems. According to United Nations Children's Fund figures, the state's infant mortality rate has fallen from 99 per 1,000 live births to 61 between 1980 and 1992. But other north-eastern states have cut infant mortality quicker.

"Our indices are not favourable, they're shameful even, but they've improved a lot in the past 10 years," says Mr Souto.

He says solving social problems cannot be left to his government alone, and that the scale of problems means the central authorities must help.

But the government of President Fernando Henrique Cardoso faces severe budget problems and is trying to keep spending to a minimum.

Bahia does have one significant advantage over other north-eastern states - its public finances are in good order. Unlike some Brazilian states which lose more than 30 per cent of tax revenues paying staff, Bahia's pay roll consumes only 60 per cent. The money left over, which last year totalled R\$350m, is being spent on roads, education and sanitation projects.

Only 26 per cent of Salvador's homes are connected to sewerage systems. Mr Souto wants to raise that figure to 80 per cent in four years. Critics say the figure is optimistic, but they welcome the initiative.

Opinion polls indicate that Mr Souto is doing a good job, although it is difficult to tell how far his approval reflects Mr Magalhães' popularity. More importantly, the new governor will be judged by his actions at the end of his mandate.

Having been at the forefront of so much of Brazil's history and culture, Bahia faces a choice. It could embrace a new model of development in which Brazil's still young democracy can represent more broadly the views of the population, and where wealth and resources are more evenly spread.

The alternative would be to allow the divisions within Bahia to continue to widen, and the state be left further behind compared to the rich south.

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Politics by Angus Foster

Senator with staying power

The government's old-fashioned hold over the state seems assured for some time to come

Politics in Bahia is both extremely simple and extremely complicated. It is straightforward because nearly all power is controlled by one man, Senator Antônio Carlos Magalhães. It is confusing because of the opacity of his old-fashioned style of government.

Mr Magalhães, widely known by his initials ACM, has been in power so long that the word opposition is only used to refer to his rivals. Drawing on his second name, the state is divided between Carlistas and anti-Carlistas and he is often described as the "emperor" of Bahia.

Born into a middle class family, ACM's power base has been built on a genius for politics, ruthlessness and deft timing in negotiating Brazil's swings between civilian and military government. He was one of the mainstays of the

1964-1985 military regime, yet why enough to distance himself from it in time to become minister of communications under the first civilian government once the generals retired. He has been governor of Bahia three times. In 1994, when he was elected as a senator, his backing was strong enough to secure the election of his chosen successor as governor, Paulo Souto. He also helped elect an outsider to the other senate seat on offer, as well as 22 of Bahia's 38 federal deputies.

In a further display of influence, his son Luis Eduardo was appointed president of Brazil's lower house of Congress and is a likely candidate for state governor in the 1998 elections.

ACM's opponents portray him as out of date but they claim his paternal style of politics is one reason for Bahia's social problems. Politicians in poor parts of Brazil are often accused of buying votes. Literally and metaphorically, and Bahia is often cited as a centre of election irregularities. His aggression and short temper give critics plenty of ammunition.

He represents a model of government which has been overtaken, he's too conservative and stuck in the past,"

ACM, who has spent 42 of his 69 years in politics, is active for his age and shows no signs of fatigue. Having suffered one heart attack, however, there is



The 'emperor': Senator Antônio Carlos Magalhães (ACM)

says Lidice da Mata, mayoress of Salvador.

ACM dismisses the criticism. "Do you think one man could have achieved all this without standing for good causes?" he says. "If Bahia is changing as they say, it's thanks to me because I've put forward all the best names. Look at the present governor, who I put forward as a technician but who's now a competent, serious politician."

Bahia has a long tradition of strong-arm politicians, especially in poor regions such as the north-east. The system became known as "coronelismo", because local leaders were known as colonels after the military ranks they bought as status symbols.

Unlike his predecessors, however, ACM came from an urban rather than rural land-owning family. He also quickly realised the growing importance of the media in politics and elections. During his time as communications minister, he managed to gain control of Bahia's five main broadcasting concessions. He and allies are also alleged to control more than 50 radio stations in the state.

His power evokes comparisons with totalitarian regimes. Earlier this month, a big Salvador-based bank reopened after ACM pressured the central government not to shut it down. An editorial in the *Correio da Bahia* (proprietor: ACM) thanked him for his campaign, saying: "Few public figures have shown such fearlessness and even daring in maintaining themselves in defence of the interests of their people."

An open letter from the state's six biggest business chambers was even more gushing in its praise for a victory which "once again highlights your competence and love of this land, which owes you so much."

ACM, who has spent 42 of his 69 years in politics, is active for his age and shows no signs of fatigue. Having suffered one heart attack, however, there is

always speculation about the future.

His son Luis Eduardo is the natural inheritor of ACM's political "maquina" or machine, and at some stage will almost certainly use it as a springboard for Brazil's presidency.

In the meantime, the "opposition" seems so weakened by successive defeats that the Carlistas' hold over the state seems assured for some time, with or without their patron.

ACM himself will be out on the campaign trail again later



Backed by ACM: Paulo Souto

this year when he hopes to help elect his choice for mayor of Salvador, the only important job in the state which he does not already control.

His candidate, Antônio Imbassai, has a good chance of winning, especially since the "opposition" is divided over whether to unite behind a single challenger.

"The opposition's weakness stems from their incompetence. I've defeated all of them put together two times. Who gave me the backing to do that was my people," says ACM.

Wooing the foreigners

On a recent trip to Japan, President Fernando Henrique Cardoso did his utmost to persuade Honda to locate a vehicle assembly in the north-east of Brazil. He was not successful. Despite the tempting incentives, it is believed that Honda will build its factory in the state of São Paulo, Brazil's industrial heartland.

Bahia, however, has not given up hope of attracting a major vehicle manufacturer. "Even if you are a latecomer like Bahia, you can still join the game," says Luiz Carreira, Bahia's state planning secretary.

He is not deterred by the absence of local manufacturers to supply parts to a foreign assembler. "Foreign vehicle makers tend to bring their suppliers with them," Mr Carreira argues. Such has been the case with Fiat, the Italian car maker which has chosen to locate in Minas Gerais, Bahia's southern neighbour, and Renault, which is building an assembly plant in the southern state of Paraná.

The Brazilian Congress is debating a package of incentives to attract vehicle makers to the north-east which, if approved, Mr Carreira believes will help

Bahia draw a foreign car manufacturer to its territory. But others believe the state government is out of touch with the harsh new world of competition.

"The automobile industry is like a lion in Brazil," says Carlotia Gottschall, a Bahian economist. "The states who possess it feel blessed by this paradigm of development. That is why Bahia also wants a vehicle industry of its own. But no amount of tax breaks will compensate for the lure of the markets and industrial skills of the south."

In these and other ways, Bahia feels it handicapped by its under-development. "It is easier to privatise a highway in the south of Brazil than in the north-east," Mr Carreira says. "The same goes for putting out private tenders for services such as sanitation. So while Brazil's new economic policies may be good for the country as a whole, they are not necessarily advantageous for the north-east."

That is why Mr Carreira believes President Cardoso should continue exercise his "powers of persuasion" to direct private investors to the north-east.

Leslie Crawford

Economy by Leslie Crawford

Showing signs of age

The state's model of economic development is no longer able to generate growth

Brazil's reluctant embrace of market economics and free trade is forcing Bahia to grapple with an uncertain future as it confronts the limitations of its outdated model of development.

The largest state in the poor north-east was the main beneficiary of centrally-planned industrialisation drives and federal government money during the 1970s and '80s, when Brazil's largest petrochemical complex was built outside Salvador, the state capital, and manufacturing overtook agriculture as the mainstay of Bahia's \$26bn economy.

Large, government-funded irrigation projects brought commercial farming to Bahia's arid interior, while fiscal incentives gave birth to new industries such as metal refining and the production of paper pulp from eucalyptus plantations.

Bahia's state-propelled industrialisation allowed it to outpace the growth of the Brazilian economy during the 1980s. But the 1990s have seen a reversal of this trend. Severe drought in 1992 and 1993 blighted agricultural production, while the opening of the Brazilian economy has exposed Bahia's protected manufacturing base to outside competition.

As a result, Bahia's economic growth in the 1990s has averaged only 2.8 per cent a year, against 3.4 per cent for Brazil. In 1995, Bahia's economy grew by only 1.8 per cent, as sharp falls in agricultural production (particularly in the traditional cocoa plantations), mining, manufacturing and

electricity, were only partially compensated for by the expansion of tourism and trade. Brazil's efforts to put its federal finances in order have affected Bahia in a number of ways. Cutsbacks in central government spending have led to the rapid deterioration of federal highways, ports and railroads, blinding Bahia's attempts to integrate itself into the economy of the more prosperous southern states.

Bahia was nevertheless quick to grasp the implications of the withdrawal of central government help. Over the past five years, the state administration has practiced self-reliance, ordering its own finances and cutting back its payroll to liberate more resources for investment.

Bahia's fiscal discipline has in turn allowed it to tap more than \$1bn of funds from the World Bank and Inter-American Development Bank.

"Because our finances are in shape, we are one of the few states in Brazil which can raise finance abroad," says Luiz Carreira, Bahia's planning secretary. Over the next five years, the state government plans to invest \$2bn to improve sanitation, health and education services, of which \$850m will come from the state's own resources.

The Mercosur customs union between Brazil, Argentina, Paraguay and Uruguay has also been a mixed blessing for Bahia. Mr Carreira says Bahia's exports to Mercosur partners have doubled since 1993 to more than \$255m, despite the handicap of an over-valued Brazilian currency. Fruit exporters from Chile have also

visited the São Francisco valley, and offered help in marketing Bahia's tropical produce in Europe and the US.

Most Bahians, however, believe Mercosur is encouraging private-sector investment to gravitate to southern Brazil, a move which will leave Bahia further behind in the development race.

"Bahia is worried about the changes in Brazil's economic policies," Mr Carreira says. "In a country with huge regional disparities, central government must direct its efforts at promoting greater equality. We need policies that will allow us to compete with the south."

Businessmen and economists, however, are divided over what these policies should be. Eberard Diniz Bezerra, president of the American Chamber of Commerce in Salvador, believes that the old formulae of tax breaks and government subsidies will no longer do the trick.

"Bahia must rethink its development model," Mr Diniz says. "It cannot compete with the south as an industrial centre: we do not have the consumer market, the labour skills, or even the suppliers that are needed for an inte-

grated manufacturing base. I think Bahia should concentrate on its natural abilities, which are tourism, agriculture and mining."

Jose Sergio Gabriel de Azevedo, an economist at the Federal University of Bahia, believes Bahia will pay dearly for the failure of past development policies to raise the living standards of Bahia's rural and urban poor.

"The old development model concentrated wealth in the hands of a very small industrial and farming elite," he argues.

By ignoring the need to educate and train Bahia's labour force, Mr Gabriel believes the state is now ill-equipped to meet the demands of a modern economy. More than 10 per cent of Bahia's population is illiterate (compared with an illiteracy rate of 10 per cent in Brazil's southern states, while half of Bahia's labour force has completed only one year of schooling).

Income levels are also alarmingly low, with some 44 per cent of Bahian families surviving on less than \$200 a month, according to a 1990 government survey.

A better income distribution, Mr Gabriel argues, would have created the demand for a labour-intensive horticulture industry, for example, helping to provide employment for the 5m people (40 per cent of Bahia's population) who still live in rural areas.

Better education would also have allowed Bahia's subsistence farmers to integrate themselves into commercial farming activities, which are dominated by immigrants from southern Brazil.

Bahia's state authorities have belatedly started to invest more in education, but Mr Carreira at the planning secretariat admits: "We have lost 30 years of development because we neglected education for so long."

Until a new generation can be trained, the government is placing its hopes on the growth of tourism, forestry and commercial agriculture - activities that demand a low level of skills - to employ Bahia's growing labour force.

Leslie Crawford

Agriculture by Jonathan Wheatley

The struggle to adapt

Irrigation has raised production, but many still find commercial farming alien

In the sertão of northern Bahia, land that until recently was a semi-arid hinterland of rocky scrub is producing grapes and mangoes for export to Europe and the US. In the west of the state, the same near-wilderness last year produced 1.9m tonnes of grains.

The irrigation projects on the banks of the Rio São Francisco have created a flourishing agro-industrial complex in an area that until 15 years ago was good for little more than cattle and subsistence farming. But critics worry that the projects have been implemented with insufficient concern for their impact on the local population.

Meanwhile, traditional agricultural activities elsewhere in the state are struggling to adapt to the changing conditions.

Cocoa, Bahia's most important commercial crop since the end of the last century, accounts for 15 per cent of the state's R\$2bn (\$2.02) annual agricultural product. But the collapse of international prices, aggravated by pests and drought in the past two years, has cut annual production from 400,000 tonnes in the early 1980s to about 200,000 tonnes today.

Pedro Barbosa de Deus, Bahia's secretary of agriculture, says producers must modernise if they are to survive a "very grave" situation. "The collapse of world prices is a strong barrier to recuperation," he says. "But as prices aren't likely to recover the only alternative is to increase productivity."

That means replacing old cocoa bushes with younger and

more disease-resistant strains. Despite movement in this direction, producers have little capacity for investment, and replacing stocks, says Mr Barbosa de Deus, "has long been planned but never gets done".

Beef cattle were established in the interior of Bahia three centuries ago to supply sugar cane plantations on the coast. Today, the state's 10m cattle make it the main supplier for the north-east of Brazil. But expansion into other markets is prevented by widespread foot and mouth disease.

Another traditional product, cotton, also faces difficulties. One problem is disease but, says Mr Barbosa de Deus, "the biggest plague on cotton is the federal government". He says producers face unfair competition from abroad because of low import duties and high domestic interest rates.

Part of the solution to the problems of traditional Bahian agriculture lies in irrigation. Projects established since the late 1970s by Codevasf, a federal government body that oversees development of the São Francisco river valley, have irrigated 750,000 hectares out of a potential 6.5m hectares in Bahia.

In the west of the state, production of grains has almost

quadrupled in the past five years as the area under irrigation has expanded. Soy and maize farmers, mainly from the south of Brazil, have moved to the region bringing modern techniques that are highly mechanised and non-labour intensive. Codevasf pumps water from the river and delivers it to the edge of the producers' property; producers provide their own irrigation systems and pay for the water used.

In the fruit-producing area in the north of Bahia, similar projects are matched by programmes to settle small farmers. Codevasf establishes "colonies" with infrastructure such as housing, schools and medical centres, and allocates plots of about eight hectares to farmers who pay for the land over 10 to 14 years.

In the colonies around Juazeiro many small farmers make a good living from grapes, mangoes and other tropical fruits. Carlos Alberto Pereira Mouco, an agronomist at the local Codevasf office, points to a plot where one farmer made a profit of R\$45,000 last year from mangoes and passion fruit.

While many succeed, however, many feel excluded by

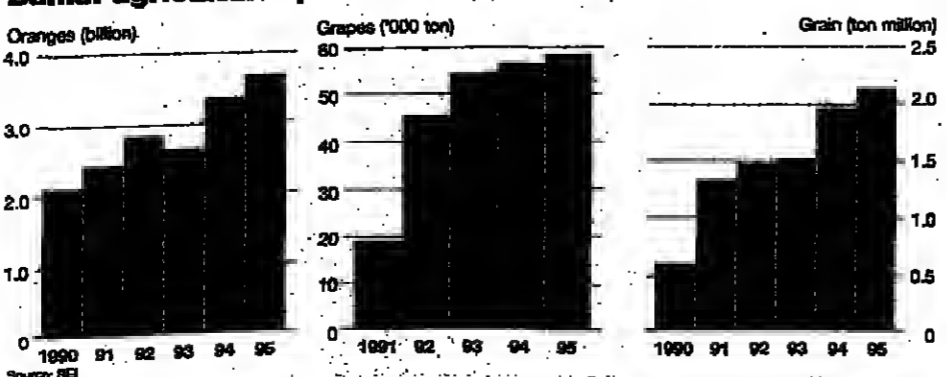
the projects. Juazeiro's population has doubled in the past 15 years to 200,000, while the rural population has swung from 75 per cent to 25 per cent of the total. Many have been attracted from outside the municipality by the prospect of work; many have left subsistence farms to live in the town and work as salaried labour on company farms.

Although Codevasf tries to allocate plots to local farmers, many are unable to adapt to commercial farming. Instead of providing training, says Roberto Malvezzi of CPT, a church land-reform movement, Codevasf brings in farmers from outside the region.

"Development should be designed to improve the lives of local people," says Mr Malvezzi. "Instead it has made them more miserable."

Most of the salaried labourers in Juazeiro live in shanties on the outskirts of town. CPT says crime has increased with the population. Mr Malvezzi says the solution for local agriculture lies in low-cost projects that would encourage farmers to stay on their land. Despite their problems, however, Codevasf's projects are likely to make a significant contribution to Bahia's agricultural economy.

Bahia: agricultural production



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3 Brazil: The state of Bahia

Tourism: by Leslie Crawford

Foreign arrivals still low

Dependence on the local market must be reduced before the sector can start to create more jobs

When I first visited Salvador as a penniless backpacker in the 1970s, my guest house was a crumbling mansion in the centre of the old town...

I am told she retired to the suburbs, along with much of the low-life that inhabited the Pelourinho, after the government of Bahia moved in to restore Salvador's historic district to its 17th century splendour.

The "new" Pelourinho, with its magnificent Portuguese churches, cobbled alleyways and gaily painted houses, has become a show-piece in Bahia's efforts to attract more tourists.

Almost every government official, and much of the local business community, wants tourism to become Bahia's biggest employer and income-spinner in the not-too-distant future...

With traditional agriculture in decline and a petrochemical industry passed its peak, the state government is channeling the lion's share of its investment budget into infrastructure projects that will enhance the potential of its fledgling tourist industry.

A new coastal highway has opened access to the palm-fringed beaches north of Salvador. A new airport for Porto Seguro, where the Portuguese first landed in 1500, has made Bahia's southern coast accessible by international charter flight...

Erico Mendonça, a senior official at the state tourism secretariat, is unhappy about Bahia's dependence on domestic tourism, which fluctuates with the erratic health of the Brazilian economy.

So while Bahia remains a favourite holiday destination for Brazilians, particularly during Salvador's riotous week-long Carnival, only 300,000 foreigners visited Bahia last year, accounting for just over 10 per cent of the tourist intake.

While other styles remain strong in Brazil - sertanejo country-style music is enormously popular - it is samba, added to and stretched in all directions, that is the basis of Brazil's pop.

Andrade said Brazilian culture should reject romantic notions of nationalism in favour of an intellectual ideal of barbaric innocence, and borrow freely from whatever sources suited the national spirit.

At the same time, Brazilian musicians were completing an amalgamation of rhythmic and vocal styles taken from the traditions of native Indians, Portuguese and Dutch settlers and African slaves to produce samba.

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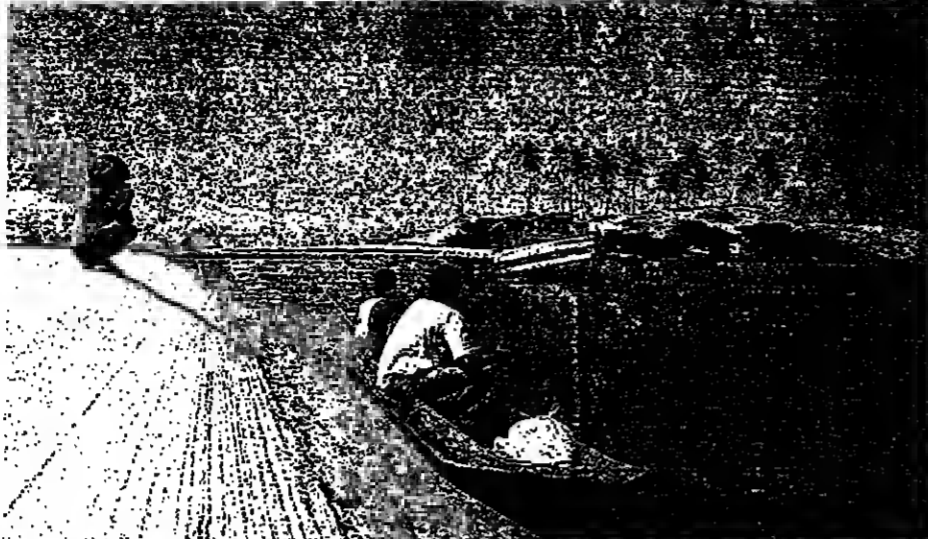
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Berra do Itariri Conde: promotional efforts in the US have met competition with Caribbean holiday resorts

industries. Investment in tourism-related infrastructure projects, which has totalled \$1.2bn since 1990, is expected to gather pace with extra funds from the Inter-American Development Bank.

Despite the government's promotional efforts, however, tourists and international hotel chains have been slow to arrive.

"Our biggest drawback is that we are not the first port of call for foreign tourists," says Avani Perez Duran, director of LR Turismo, a leading tour operator in Salvador.

So while Bahia remains a favourite holiday destination for Brazilians, particularly during Salvador's riotous week-long Carnival, only 300,000 foreigners visited Bahia last year, accounting for just over 10 per cent of the tourist intake.

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Banking: by Jonathan Wheatley

A victim of stability

The temporary closure of Banco Econômico proved a shock to the state's economy

"Closing Banco Econômico brought Bahian business to a standstill. It was a catastrophe. If the bank had stayed closed, the result would have been chaos." This view - that of a leader of Bahian industry - is shared throughout the state's economy.

Econômico, Bahia's - and Brazil's - oldest bank, was more than a private business. As a provider of retail and commercial banking services, often with only half an eye to profitability, it was almost an unofficial conduit of government policy.

Like many Brazilian banks, Econômico was a victim of economic stability. The government's success in cutting monthly inflation from 50 per cent in June 1994 to about 1 per cent deprived banks of the easy earnings provided by high inflation.

The temporary closure caused an uproar in Bahia. Two other big banks - Banesa and Banesa, the state banks of São Paulo and Rio de Janeiro - had been taken under central bank control eight months earlier, but remained open.

The government argued that closure of Econômico was necessary to avoid a rash of withdrawals: big depositors had been leaving for months. But for many in Bahia, the closure amounted to victimisation.

Econômico was subjected to a campaign of conspiracy, says Alvaro Conde Lemos Filho, president of Bahia's commercial association. "The big banks in the south wanted it to disappear. The whole

point of the central bank's intervention was to close it down." Mr Lemos Filho says the banking industry is one example among many of the deliberate concentration of Brazil's economy in the comparatively affluent south.

The relationships between Bahian businesses and their banks diminished from the 1970s, he says. "Econômico was the only private bank left with a local zeal."

The strength of Econômico's commitment to the local economy was one of the reasons for its downfall. Although not a big investor in industry, it was a close partner of many businesses, providing payroll and other services. Many branches operating within companies and in rural areas did so at a loss.

This helped it to earn powerful defenders among Bahian politicians, ever mindful of local grass-roots support. Senator Antônio Carlos Magalhães, the chief of Bahia's politics, wanted to see Econômico handed over to the state. The strength of support for Econômico was enough to persuade multinational group Odebrecht to consider mounting a rescue.

"We have never felt the desire to enter into competition with our own bankers," says Gilberto de Freitas Sá, a board director at Odebrecht. "But if it had been the only way to save the bank, we would have joined other investors in a rescue deal."

The directors of Econômico say it will maintain its headquarters in Bahia and its Bahian identity. But much is bound to change. "We will continue to offer the same services as the old Econômico, within the possibilities of a private bank," says Ezequiel Nasser, president of Econômico. "But Econômico went beyond that. Its political roots went deep and there was a lack of commercial discipline."

Mr Nasser says the new bank will have strict rules for lending to private and small business customers. Commercial operations such as leasing and foreign exchange will be controlled by a series of "credit platforms". Discipline, he says, will be absolute.

Econômico has guaranteed to make no job cuts during its first two months, when it will decide whether or not staffing is overweight. The bank workers' union, which claimed victories in securing the guarantee and ensuring that all workers were paid while Econômico was closed, fears that up to 3,000 of Econômico's 9,500 employees could lose their jobs.

Mr Nasser says his aim is to extend rather than reduce Econômico's branch network. The new bank's 284 branches, 278 of which were Econômico's, are distributed evenly between the north and south of Brazil. Mr Nasser says the bank will open more branches in the south. "We have to concentrate our activities where the GDP is."

CASE STUDY Popular music in Brazil

The rhythm of a nation

In sandals, knee-length breeches, leather jerkin and dreadlocks down to his waist, Carlinhos Brown leans over a pair of bongos. "This is samba," he says. PaTApap paTApap paTApap. Adding a half beat here and a quarter beat there, alternating stresses, moving the syncopation from centre to rim, he rings the changes.

"This is Cuban... This is reggae... this is Afro... this is samba reggae." He straightens and smiles. "See? It's all the same. It's all Brazilian."

In fact, he has made the differences quite clear, but he is illustrating a point: Brazilian music, while borrowing from other musical styles, remains at all times essentially Brazilian. "Brazilian music isn't influenced," he says. "It absorbs."

Carlinhos Brown is one of the brightest stars of modern Brazilian pop, yet he is echoing ideas first circulated by Oswald de Andrade, an avant-garde poet, in the 1920s.

Andrade said Brazilian culture should reject romantic notions of nationalism in favour of an intellectual ideal of barbaric innocence, and borrow freely from whatever sources suited the national spirit.

At the same time, Brazilian musicians were completing an amalgamation of rhythmic and vocal styles taken from the traditions of native Indians, Portuguese and Dutch settlers and African slaves to produce samba.

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Odebrum, an organisation operating cultural and educational programmes in Salvador and best known for its percussion band of the same name.

Odebrum's music has a strong African feel and part of its contribution to Salvador's culture is to emphasise the city's African roots and take a lead in the anti-racist movement. But perhaps its biggest addition to Brazilian music was the invention by musical director Negoinho da Samba of samba reggae, a new rhythm that combines the drive of reggae with the lift of samba and became the basis of Bahia's biggest popular music style, axé.

In Rio de Janeiro, samba has its most flamboyant urban expression during carnival. Rio is also the birth-place of Bossa Nova, the conspicuously sophisticated, laid-back form that traded influences with American cool jazz.

The disciples of Bossa Nova that came of age at the start of Brazil's military dictatorship in the mid-60s retained its lyrical and rhythmic sophistication and added elements from western rock such as electric guitars, synthesizers and, above all, rebellion. They called their style MPB (for Brazilian popular music) and their songs became a focus of urban protest against military rule.

Thirty years later, many of MPB's leaders are still among the most popular and respected figures in Brazilian music. Caetano Veloso has almost iconic status, touring and producing albums with apparently ceaseless energy. His music constantly reworks his own thematic roots and introducing new elements from western and Latin traditions.

For some, however, the heights of lyrical and musical virtuosity reached by the leaders of MPB have been abandoned by the current generation of Brazilian popular musicians. Margaret Menezes, a singer most famous overseas for her work with David Byrne, an American exponent of world music, says modern Brazilian music fails to meet the needs of its audience.

"Popular culture is a reflection of the soul of the nation, so maybe what's happening today shows the public mood," she says. "But people have a right to music of a higher quality."

In fact, according to Martha de Uchoa Carvalho, a professor of music at the University of Rio de Janeiro, MPB was never as popular as its name suggested. "Bossa Nova and MPB were developed by and for an urban elite," she says. The truly popular musical styles - sertanejo in the south and centre west, axé in the north-east and pagode, a modern urban samba, almost everywhere - all share two big popular concerns: falling in love, and partying.

Especially in São Paulo and other urban centres, pagode has risen to dominance in the past three years and supplanted more aggressive reggae and rap-based music that had a stronger element of protest against poverty and urban degradation.

What it lacks in profundity it makes up for in energy and enthusiasm. And Carlinhos Brown - described by a director of a Bahian cultural institute as "the prime example of Brazilian eclecticism and a mentor for his generation" - says that in any case, popular music has no need to preach.

"The lyrics are the least important thing," he says. "Action is more important than making speeches. There's a lyric on my new album that goes bubabadabadadap, with some English and Spanish thrown in. It's the language of the rhythm of communication. That is communication."

Jonathan Wheatley



Iconic status: Caetano Veloso

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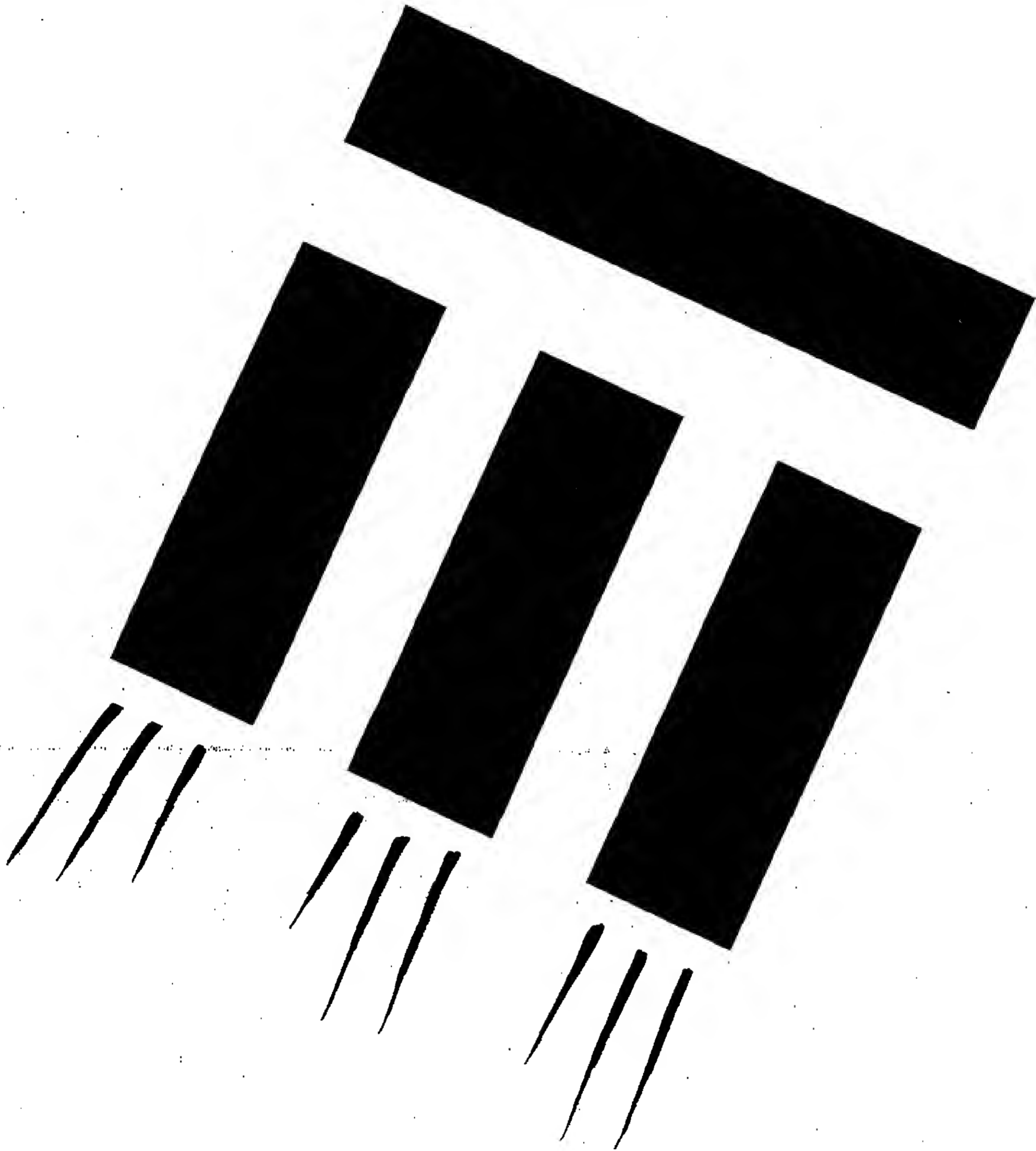
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TECHNOLOGY

Cleaner ways with magnets

The ability of micro-organisms to devour toxic chemicals is often used to clean up polluted sites. In a variation on this theme, scientists have found a way to use the magnetic properties of some bacteria to remove toxic metals from contaminated water.

These magnetic bacteria could find a role in clearing out the canals of Venice. Over the years, these have silted up so much that it is sometimes impossible for emergency vehicles to gain access at low tide.

The canal system is polluted with toxic heavy metals from the industrial complexes around the Bay of Venice. That presents difficulties in dealing with the sediments removed after dredging the canals.

A team of scientists from Italy, the UK and Ukraine believe that magnetic bugs could provide the answer. The bacteria would attract the heavy metals in the sediments; the metals and bugs could then be separated from the rest of the sludge by using a magnetic system.

The technology was developed at Southampton University by Jim Watson and his colleagues when they investigated the properties of certain bacteria that occur naturally in sewage, deoxygenated water and sediments. It is being commercialised by Biopraxis, a start-up company in which the university has a 25 per cent stake.

The team found that, when mixed with certain metals and nutrients, the bacteria were able to absorb a large amount of certain metals. They subsequently discovered that the micro-organisms produced an iron sulphide coating that attracts and holds certain metals.

The project, which is seeking funding from the EU's Copernicus project, is linked to another project concerned with the clean-up of sites contaminated with radioactive metals in Ukraine. According to Watson, the technique is inexpensive and can cope with very low concentrations of metals, making it suitable for cleaning up radioactive waste.

Vanessa Houlder

Early in the next century, those nattily-dressed flight attendants on the world's commercial airlines could find themselves overshadowed by the "smartness" of their own aircraft.

A global race is on to develop the world's first aircraft constructed from structures that will monitor their own health during flight, and warn of any cracks or defects as they occur. Aircraft with feelings, one might say.

These self-sensing structures will replace some traditional ground-based inspection, creating a sea change in the way the health of aircraft is checked, improving safety and reducing maintenance costs.

Aircraft are subjected to continuous inspection throughout their life in a battle to detect signs of corrosion or microscopic cracks caused by metal fatigue, which, if allowed to go unnoticed, would impair their safety.

The importance of this regular inspection is illustrated by the few occasions when things do go wrong, such as the case of an Aloha Airlines Boeing 737 flying between the Hawaiian Islands in 1988.

In spite of continuous health checks, shortly after takeoff, and at a height of 30,000ft, a 5m section of the aircraft's fuselage broke away, instantly sucking a flight attendant to her death and leaving 61 of the 95 passengers injured, three critically.

The cause of the accident was microscopic cracking of the fuselage which had grown imperceptibly over many years of service and which finally spread as the aircraft climbed to its cruising height.

Monitoring the health of aircraft is a laborious process. Ground staff check an aircraft every time it lands; at regular service intervals aircraft are stripped of their internal fixtures and subjected to detailed inspection, including the use of ultrasound.

The commercial overheads of such a regime are enormous. British Airways alone employs more than 1,000 staff to inspect and service its 80 Boeing 747s, and the world's airlines spend an estimated \$30bn (£20bn) annually on the costs of repairs, overhauls and spares.

These health checks also reduce the revenue-earning capacity of airlines because they remove aircraft from service for periods ranging from days to weeks.

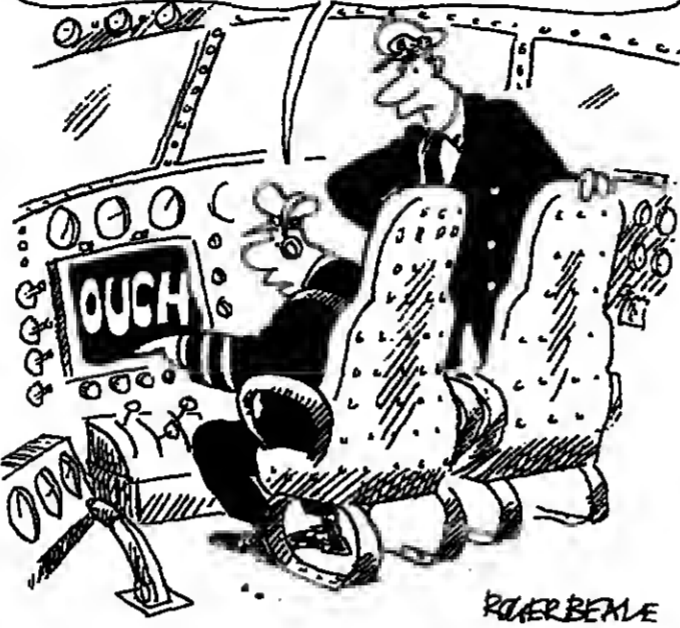
Health monitoring must remain central to airline safety, but, as Barry Booth, chief of development engineering at British Airways says: "Airlines welcome any new technology which will improve on their existing practice."

Such a technology is now possible. To create a "smart"

Smart jets that can warn of defects and repair themselves are now a possibility, says Cliff Friend

The feeling aircraft

THESE SELF-MONITORING AIRCRAFT HEALTH CHECKS ARE GREAT BUT I WISH THEY COULD BE MORE SPECIFIC



structure, an aircraft must be covered in a network of sensors, rather like the human nervous system but made of optical fibres, similar to those used to carry telephone calls.

When a portion of optical fibre is stretched or compressed, the frequency range of the light carried within it changes. Processing these changes by computer allows engineers to detect stress and strain at thousands of separate points along such a fibre.

When bonded to a conventional aluminium aircraft, or woven into the carbon-fibre reinforced plastics (CFRP) now entering service in the latest generation of passenger aircraft, networks of these "optical nerves" will monitor any damage

that develops through impact, corrosion or fatigue.

Demonstrations of this technology already exist. Ray Measures, an aerospace engineer at the Institute of Aerospace Studies in Toronto, has built an experimental section of "sensual" wing for the De Havilland of Canada Dash turboprop aircraft, which is in service with commuter airlines worldwide.

The wing's leading edge is a particularly difficult region to inspect conventionally and so Measures has incorporated "optical nerves" to inspect it. The wing has not yet flown, but ground tests have shown it can detect the damage which results from impact with foreign bodies such as runway debris and birds.

Worldwide, many other aerospace companies are developing similar demonstrators, including British Aerospace which is working on a sensual fuselage based on similar fibre-optic technology.

However, sensuality is only the beginning of "smart" aircraft. Work is already under way to create aircraft that not only sense damage but also make themselves healthy again.

Griffith University is working on "composite structures" that can "limp home". These contain muscle-like metal wires that can adapt their shape in response to control signals and be activated at the first sign of damage. These wires shut any cracks, minimising the further accumulation of damage and allowing a damaged aircraft to fly safely to its nearest airfield for an emergency landing.

Self-repairing structures are also becoming feasible. For example, Carolyn Dry at the University of Illinois is developing composite materials containing hollow fibres that can release adhesive into a damaged region of structure. These will allow localised self-repair, as well as the possibility of repair systems that can be replenished at regular intervals or improved during the life of an aircraft.

When "smart" aircraft will appear is a difficult question to answer. Realistically "sensual" structures will be available in the form of advanced demonstrators over the next decade, but self-repairing structures are likely to be earth-bound for many years to come.

However, there is no doubt that "smart" structures will, over the next 20 years, create a revolution in the way aircraft are inspected and serviced, reducing the likelihood of incidents such as that experienced by Aloha Airlines.

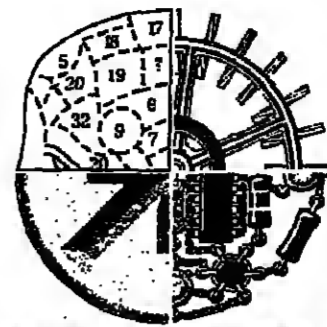
They will also offer improved revenue-earning ability by allowing an airline's aircraft to fly safely for more hours before costly (in commercial terms) human intervention, and offer reduced overheads associated with inspection and maintenance.

Airlines are already responding positively to this technology. For example, British Airways' engineering division, one of the industry's leading maintenance and overhaul businesses, is assessing the potential of "smart" aircraft structures.

It is, therefore, likely that smart aircraft will soon be in the world's airline fleet once they are proven to offer improved safety and cost benefits and cleared by airworthiness authorities.

Cliff Friend is head of Cranfield University's smart materials group.

Worth Watching · Vanessa Houlder



Porous ceiling built for sports centre

Work has begun on a sports centre in Callander in Scotland with a "porous" ceiling designed to cut down energy consumption and improve air conditions within the building.

The building's loft will be insulated using materials that allow air, moisture and vapour-linked pollution to filter through them.

A fan will draw a slow-moving stream of air into the building through a flue in the roof. As the air moves through the insulating material, it will be heated up. The downwards flow of air should also cut down the energy wastage usually caused by hot air rising to the top of the building.

The insulating materials will be able to absorb and emit water in a way that stabilises the building's humidity. This is expected to cut down problems with mould, bacteria and viruses.

Gaia, the architect, says "dynamic insulation" systems, pioneered in Scandinavia and continental Europe, have cut running costs by up to 30 per cent.

Gaia: UK, (0)131 558 1432; fax (0)131 558 1432.

Switch from cobalt for batteries

Rechargeable lithium batteries can store more than twice as much energy for their weight as other rechargeable batteries. But their use has been limited by the high cost and the toxicity of the cobalt component used in the electrode.

Chemists at the University of St Andrews in Scotland have experimented with an electrode material that replaces cobalt with manganese - which is far less toxic and 100 times cheaper than cobalt. According to a report in today's Nature, its charge capacity and stability compares

well with other compounds used for lithium battery electrodes. University of St Andrews: UK, tel (0)1334 463225; fax (0)1334 463208.

Automatic search through a database

Tracking down relevant articles on an electronic database can be time-consuming. The answer, according to a US electronic business information service, is to offer readers summaries of articles that are automatically generated using statistical techniques.

Intell.X says its summaries - which consist of a few of the most relevant sentences directly from the full text of the article - can cut down the information overload facing managers.

This kind of text-summarising program is an example of "natural-language processing", in which computers deal with information expressed in a human language. It uses statistical tools to sift the text to find phrases that occur most frequently. By assuming this is a measure of relevance, the sentences can be ranked in order of importance. Intell.X, part of DataTimes Corporation, used software developed by Claritec Corporation based in Pittsburgh.

Intell.X: US, tel 703 3247400; fax 703 3247401.

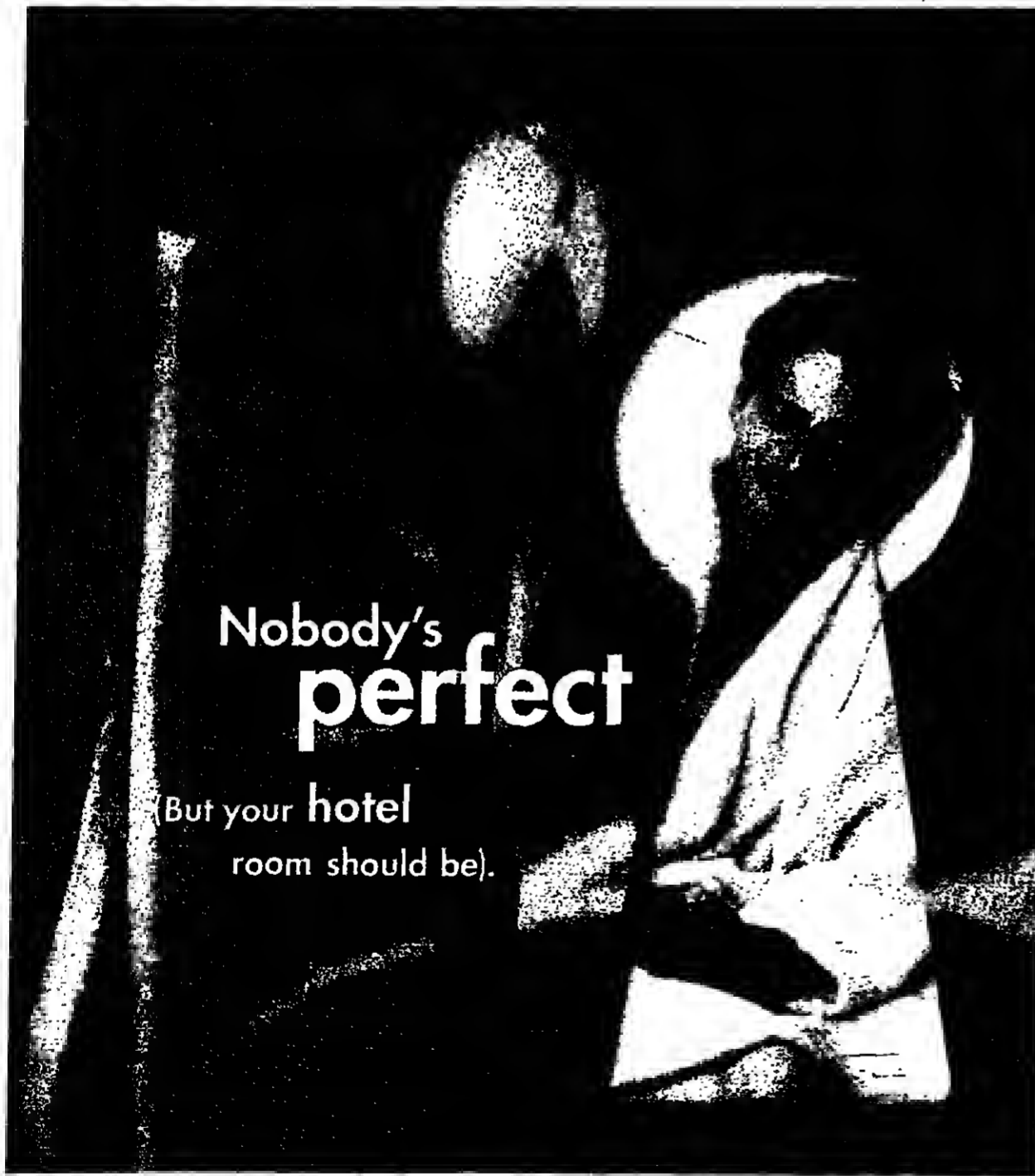
Plastics sorted with air and water

Daimler-Benz has found a way of recycling plastics from disused components and production waste, that dispenses with the need to sort types of plastics by hand. The technique consists of a glass column filled with several hundred litres of water and air bubbles.

The technique relies on the different responses of different types of plastic granules when put in water. Plastics that are difficult to wet are more likely to attract air bubbles and float. Conversely, the plastics that are easy to wet, or hydrophilic, stick to the bottom of the column.

Tannic acid can be used to separate plastics that cannot otherwise be distinguished using this technique. The acid combines with certain plastics in a way that makes them hydrophilic and allows them to be separated from the mixture.

Daimler-Benz: Germany, tel 71117 93602; fax 71117 94563.



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مكتبة القرآن

ARTS

Cinema/Nigel Andrews

Females up front

GIRL 6 Spike Lee

UP CLOSE AND PERSONAL Jon Avnet

NOW AND THEN Lesli Linka Glatter

THE CONFESSIONAL Robert Lepage

GUILTRIP Gerard Stembridge

Were told you it would happen and it is. In Girl 6, Up Close And Personal and Now And Then women are taking over the centre of the movie screen...

Randle) to take off her clothes. Flustered and humiliated, she stomps off out of the room, down the corridor and into the plot proper. Here, with the support of a cross-media cast including Madonna, Halle Berry and Naomi Campbell, her acting dreams give way to the addictive remunerations of telephone sex.

Starting in a sort of switchboard brothel, she later takes her work home to her one-room New York apartment. The only real men in her life are an ex-husband now turned petty thief (Isiah Washington) and Spike Lee playing a tenement neighbour and best friend. Elsewhere, the men she canoodles with across the other end of the phone are seen in fuzzy video-shot footage, with features shadowed or half-concealed.

The men are marginalised. But there is no suspicion that the movie is foregrounding a woman merely to itemise the stations of her humiliation. The script written by Suzan Lori-Parks sees 'Girl 6's' salaried sexual servitude less as a form of abasement than as the requisite fall that goes before a resurgence of pride.

Correction. In this giddy, raggedy-structured but likable tragi-comedy of sexual manners we begin with a guest spot from Quentin Tarantino, fast becoming the cinema's favourite bigot. As a film director called 'Q.T.', he asks the auditioning young black heroina (Theresa



A mess with charm and originality: Spike Lee's 'Girl 6' with Theresa Randle as the independence-seeking woman

that she strides from her local station into a state network, as if following in the high-heeled footsteps of Nicole Kidman in To Die For. (This film has so many direct antecedents it should come with a genealogy chart.)

Once there, the drop-dead blonda meets the already dead, or seemingly so, news director (Robert Redford). Smiling through a thousand facelifts, Redford introduces her to the well-oiled cant of his media world - 'If it bleeds, it leads', 'We're only as good as the stories we tell' - while taking what seems weeks to get around to the film's real business, romance.

They kiss, they caress, and after much gilt-lensed romping in the surf they finally make love. But tragedy lurks, even after Pfeiffer has become an overnight telly star. ('She eats the lens,' explains Redford.) In Act Three a prison riot and a war in Central America test their survival powers, though by then we are already urging fate to get a move on

as we try to stay interested in two gesticulating hairdos masquerading as human beings.

Now And Then is better. The adventures of four girls growing up in a small-town housing estate in the 1950s threaten a riot of rite-of-passage clichés. But appealing performances and a stily observant script by Marlene King - especially good in showing how the giggly candour of pubescent girls can be more forthright about sex than boys' pretended machismo - keep overfamiliarity at bay.

The only spoiler is the framing sequence, in which the grown-up girls reunite in the form of well-known Hollywood stars. Melanie Griffith presents the only known example of a girl's voice getting higher as she reaches womanhood, while Demi Moore (who also produces) leads the others in a glibby coda of sentimental summarising.

Robert Lepage's The Confessional is two hours of stylistic ingenuity in search of dramatic substance. Film-

ing in his native Quebec, the avant-garde French-Canadian theatre director fashions a movie debut strong on cinemaism. Real and recreated glimpses of Alfred Hitchcock shooting his 1982 thriller I Confess in the city are blended with a parallel plot about priestly crisis, involving a pregnant woman, an errant priest and a young homosexual confessor.

This, as the film grows even more mosaic-like, soon becomes a flashback story as we accompany a young man (Lothaire Bluteau) padding through present-day Quebec investigating the mystery of his parenthood, related of course to the above imbroglio.

Lepage revels in the sliding layers of time and illusion. He interweaves bits of Hitchcockery (blood vortexing down a plughole, more cod-Verigo stair shots) with his own deft visual puns, like the gay satuna whose whispering cubicles resemble a nest of confessionals. But over two hours, so much cleverness has us plining for more content. However intoxicating

at first swig, both the plot conundrums and the characters end up seeming as deficient in life as the liqueur-filled pieces in Bluteau's eccentric mid-movie chess game.

The gaudily filmed Guilttrip is more compelling. First-time Irish filmmaker Gerard Stembridge plunks the camera down pretty much anywhere. But there is an eerie vibrancy in the tale of a soldier husband (Andrew Connolly) who treats his wife like a squaddie - she even has a 'standing orders' book recording household rules and regimens - and then, roused by growing jealousy, unleashes his violence on another woman. Never mind the production values (there aren't any). Feel the sense of closed lives leading to exploding passion.

Last and least, Eddie Murphy returns in the lamentable Vampire In Brooklyn (15, Wes Craven): as short on wit and invention as it is long in the special-effects teeth. If it threatens to come to your local cinema, surround the place with garlic.

Theatre On the Boulevard

Liliane Monteverchi was last seen at length in London in the West End run of the musical Grand Hotel. She has also been a prima ballerina, a star of the Folies Bergère and a contract starlet with MGM Pictures.

The former Tony Award winner now presents a one-woman music show in a louche basement theatre off Lower Regent Street, in which any snorts of derision are rapidly silenced by the force of her personality.

Yes, she may look like the picture in Liza Minnelli's attic; yes, she may emerge for her finale in a robe sewn with the entirety of the EU sequin mountain; yes, I may have alternated seriously considering falting for an older woman with wondering how the old slapper thought she could get away with it...

...but get away with it she does. In spades. Monteverchi's strategy is to keep playing it big, even though she may be downstairs from a Spaghetti House: sure enough, the laughs come, but with them comes a warm, golden seduction, until the audience accepts unquestioningly that the greatness she so amusingly protests is her true and deserved stature.

The song-writers whose work she performs may include Sondheim, Porter and Rodgers & Hammerstein as well as Piaf, Aznavour and Brel, but this is primarily an evening of chanson: Monteverchi vamps playfully with the punters and unleashes torrents of guttural gallic 'R's, switching between French and English in alternate verses and coolly seguing from number to number in a tight, skillfully programmed set.

Having co-opted her violinist as a dancing partner in 'New Fangled Tango', she manages to make standing still seem the most erotic activity imaginable on a dance floor; flirting with around half the audience in turn during 'Je Cherche un Millionnaire', she made a succession of critics shrug apologetically for the modest size of their wallets.

Her patter is the glue that holds the show together, whether talking about la vie Parisienne or her own life story: recounting her casting in Tommy Tune's musical, Nine, she explains: 'I never been to an audition before (I'm a star, I'm a star)'... The audience chuckles but on that occasion Monteverchi laughed all the way to a Tony. And as the evening progresses, her musical skill advances by stealth, until... well, not even the great Scott Walker could make Rod McKuen's mawkish English lyric for 'We me quite pas (if you go away)' sound genuinely poignant, but Monteverchi brings out the beautiful tristesse without even breaking a sweat. By the end of the press performance she had the most hardened West End butchers eating out of her pantler-like paw. A remarkable woman.

Ian Shuttleworth

Jermyn Street Theatre, London SW1, until June 23 (0171-287-2875)

Theatre/Alastair Macaulay

Jane Austen vulgarised

Mansfield Park, Jane Austen's version of the Cinderella story, is the least lovable of her six novels but among the greatest. In it she develops that extreme moral precision for which she is only matched in English literature by Richardson in Clarissa; and she advances her genius for the realistic detail that perfectly reveals manners and psychology. Pride and Prejudice - her previous triumph - she called 'too perfect'; and its flaw is that it is the greatest novel Georgette Heyer never wrote.

No one could say that of Mansfield Park. I like Lionel Trilling's theory that Mansfield Park was Austen's deliberate reaction to the too delicious charms of Pride and Prejudice, and that the winning heroine of P&P, the cherishable Lizzie Bennet, turns up again as Mary Crawford, the too worldly and morally imprecise anti-heroine here. Fanny Price, Austen's Cinderella heroine, is not only physically weak, conversationally unfunny and socially timid, she is also something of a prig. The man she marries is no rich landowner, but a clergyman who has spent most of the novel in love with Mary. The superb scene at Pemberley in the former novel, where Lizzie to her surprise meets

Darcy on his home terrain, finds a yet more brilliant but far less pretty counterpart in the Portsmouth episode of Mansfield Park, where Fanny finds herself embarrassed by her family and reluctantly impressed by the social grace of Henry Crawford, the man whose proposal of marriage she has been resisting.

To those who have never read Jane Austen, and to those who intend never to read Jane Austen, let me commend Willis Hall's stage adaptation of Mansfield Park, as staged for the Chichester Festival Theatre by Michael Rudman. Again and again, Austen's dazzling attention to points of behaviour is misconstrued, her whole moral sense is blunted. One of the most basic points of Mansfield Park is that Maria and Julia Bertram, the proud cousins to whom Fanny is Cinderella, are perfect in social external; it is only in feeling and in moral judgment they are deficient. Here, however, they are socially maladroit. Maria

behaves like an Essex girl with Henry Crawford, pushing her skirts and verbal innuendoes around to ludicrous extents. Edmund's socially embarrassed reaction to joining the family theatricals is here perverted into part of his campaign in wooing Mary Crawford.

Some of Austen's witty lines of commentary are here spoken by servants, but the same characters are also given reams of beneath-stairs moaning. This Mansfield Park sounds as if it was written in the servants' hall, by someone with rather less sense of social manners than the authors of Upstairs Downstairs. There is a much higher proportion of singing and dancing than in the novel, all to give audiences the kind of sweet and trite impression that Austen avoids, and some of it unstylish. And what of the whole Portsmouth episode, the greatest achievement of the novel? It is simply deleted.

Liza Goddard, an ageing soubrette, is grossly miscast as the indolent Lady Bertram, whose languor she makes as if being turned out on a very slow, stiff,

stupid machine. Lucy Akkril, Nina Jacques and Jay Villiers are astonishingly vulgar and coarse as Maria, Julia and Mr Rushworth. Ursula Smith actually removes most of the malice from Mrs Norris, Jane Austen's most disturbingly evil character; and Mark Jax gives a charmless, unpolished lower-middle-class account of Edmund.

Several actors - Lucy Scott as Fanny, Tony Britton as Sir Thomas Bertram, and Ashley Russell as Tom - are pretty good, even though the script veers their characters away from Austen's on some important points. But no good performance can make much headway against the insipid banality of the production. Hall's adaptation must bear much of that responsibility, and Rudman's direction a larger share. Amplification only redoubles the already low style quotient. This Mansfield Park abounds with just the snobbish, coarse, callow attention to worldly surface that Austen herself so movingly criticises.

Chichester Festival Theatre, to July 20. Tony Britton and Lucy Scott in 'Mansfield Park'



Chichester Festival Theatre, to July 20. Tony Britton and Lucy Scott in 'Mansfield Park'

INTERNATIONAL ARTS GUIDE

- AMSTERDAM CONCERT Concertgebouw Tel: 31-20-5730573 Murrey Perahia: the pianist performs works by Scarlatti, Handel, J.S. Bach and R. Schumann; 8.15pm; Jun 8 EXHIBITION Rijksmuseum Tel: 31-20-6732121 South Wing: after three years of renovation, the museum's South Wing is open to the public again. Displays of 18th and 19th-century paintings, Asian art, costumes and textiles are on view in 16 new rooms; to Sep 22 BERLIN CONCERT Konzerthaus Tel: 49-30-203090 Rundfunk-Sinfonieorchester Berlin: with conductor Julius Rudel and violinist Miriam Fried perform works by Paine, Hindemith and Weill; 8pm; Jun 7 OPERA Deutsche Oper Berlin Tel: 49-30-3438401

- BRUSSELS EXHIBITION Palais des Beaux-Arts Tel: 32-2-5078463 Yves Kabanov, Sur le toit: exhibition of Ilya Kabanov's installation 'Sur le toit' (On the roof), created for the Palais des Beaux-Arts, in which the visitors walk on a foot bridge over the roofs of an imaginary city; from Jun 7 to Sep 8 CHICAGO EXHIBITION Art Institute of Chicago Tel: 1-312-4433600 Roy DeCarava: A Retrospective: exhibition of more than 200 photographs by Roy DeCarava, ranging in date from 1948 to 1994. The exhibition captures the wide variety of subjects he addressed over the years, from intimate still-lives to portraits of jazz musicians to poignant reflections of the panorama of daily human life; from Jun 8 to Sep 15 COPENHAGEN CONCERT Thovs Concert Hall Tel: 45-33 15 10 01 London Symphony Orchestra: with conductor André Previn and

- DUBLIN EXHIBITION National Gallery of Ireland Tel: 353-1-8615133 Joan Miró (1893-1983): this exhibition brings together some 100 of Miró's graphic works from the collection of the Museo Nacional Centro Reina Sofia of Madrid; from Jun 12 to Jul 28 FRANKFURT EXHIBITION Schirn Kunsthalle Tel: 49-69-2998820 Lucio Fontana: a major retrospective exhibition featuring the work of the Italian artist Lucio Fontana (1899-1988). The exhibition includes close to 200 works selected from museums and private collections throughout the

- GENEVA EXHIBITION Petit Palais Musée d'Art Moderne Tel: 41-22-3461433 Les Neo-Impressionnistes: exhibition of some 70 works from the Neo-Impressionist collection of the Petit Palais. The display includes works by artists such as Albert Dubois-Pillet, Maximilien Luce, Charles Angrand, Van Rysselberghe, Van de Veldt, A.J. Heymans, Henri Martin, Pietro Mengoni, Signac and H. Pottjans; from Jun 8 to Sep 3 LONDON CONCERT Barbican Hall Tel: 44-171-6388891 Royal Philharmonic Orchestra: conductor Valery Gergiev and viola-player Yuri Bashmet perform works by Debussy, A. Tchaikovsky and Prokofiev; 7.30pm; Jun 7 Wignmore Hall Tel: 44-171-9352141 Alicia de Larrocha: the pianist performs works by Soler, Granados and R. Schumann; 7.30pm; Jun 7 MUNICH DANCE Nationaltheater Tel: 49-89-21851920 Shannon Rose: a choreography by Youri Vámos to music by Sibelius, performed by the Bayerisches Staatsballett; Jun 7 NEW YORK CONCERT Alice Tully Hall Tel: 1-212-875-5050

- PARIS CONCERT Salle Pleyel Tel: 33-1 45 61 53 00 Orchestre Philharmonique de Radio France: with conductor Marek Janowski, soprano Ruth Ziesak and violinist Frank-Peter Zimmermann perform works by Elgar and Mahler; 8pm; Jun 7 ROME CONCERT Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064 Maurizio Pollini: the pianist performs works by Chopin, Csiarnio

- SYDNEY EXHIBITION Art Gallery of New South Wales Tel: 61-2-2251700 Kandinsky and the Russian Avant Garder: major exhibition charting the rise and fall of modernism in Russia. The display includes works by artists such as Kandinsky, Malevich, Rodchenko, Goncharova and Popova. Many of the works have rarely been seen before since they are drawn from museums throughout the former USSR; from Jun 8 to Aug 18 VIENNA CONCERT Musikverein Tel: 43-1-5058681 Gurrelieder: by Schoenberg. Performed by the Wiener Symphoniker with conductor Georges Prêtre. Soloists include Deborah Voigt, Anne Sofie von Otter, Thomas Moser, Heinz Zednik, Alfred Muff and Klaus Maria Brandauer (recitative); 7.30pm; Jun 9, 10 OPERA Wiener Staatsoper Tel: 43-1-514442960 Die Walküre: by Wagner. Conducted by Daniel Barenboim and performed by the Wiener Staatsoper. Soloists include Plácido Domingo, Waltraud Meier, Rene Pape and Falk Struckmann; 8pm; Jun 8

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COMMENT & ANALYSIS



Economic Viewpoint • Samuel Brittan

Keynes and globalisation

It would not be a good idea for all the major countries simultaneously to reduce their budget deficits or to take other actions to boost savings

Every day, some international organisation or national think-tank lectures us on the need to save more. What would happen if a country took this advice to heart? The most likely move would be firm action to reduce budget deficits, which are the opposite of savings.

According to both classical economists and traditional moralists, the results could be nothing but beneficial. Interest rates would fall, investment rise and the growth rate increase. As a result, citizens would be better off than they were before for their temporary sacrifices.

It was the achievement of John Maynard Keynes, the British economist, to demonstrate that these moralising tales might not always be true. The traditional analysis, by focusing only on interest rates, overlooked another variable which might respond — namely output and income.

An attempted increase in savings might reduce national income and raise unemployment. This could happen because interest rates fail to fall enough, or because investment is not sufficiently sensitive to interest rates. The result might, therefore, be a recession rather than an investment boom.

This bold summary leaves open a number of questions. How likely is such a savings-induced slump? Can it lead to long-term low employment, or are self-correcting forces likely to come to the rescue in the longer term?

These and many other related questions have been endlessly debated in the 60 years since Keynes's *General Theory* appeared — and are no nearer resolution. Answers are likely to depend on particular circumstances of time and place.

Nevertheless, Keynes succeeded in showing that an attempted increase in savings can have depressive effects, and not just the virtuous ones previously claimed. This is his main contribution to economic understanding for which he

would have deserved the Nobel Prize — had it existed for his subject in his lifetime — several times over.

There has been a tendency to obscure the matter by too much talk of Keynes's wider vision, or his view of government or his role in the Bloomsbury group of artists and writers. But without the *General Theory* and its over-saving doctrines, Keynes would be remembered mainly by historians for his critique of the Versailles treaty and his name would not be a household word today.

There is, incidentally, no incompatibility between the *General Theory* and one of the main doctrines called in aid by classical economists seeking to put Keynes in his place. This doctrine is embodied in the so-called natural rate of unemployment, more politely known as the NAIRU (non-accelerating inflation rate of unemployment). It maintains that if governments try to reduce unemployment below some minimum level, the result will be accelerating inflation.

That minimum depends on labour market characteristics and cannot be avoided by putting more money into the economy. The *General Theory*

says that you might not get unemployment even as low as the natural rate if attempted savings are too high and demand is, therefore, inadequate.

This potted summary of two generations of theorising has been given not for its own sake but for its relevance to the globalisation debate. Globalisation refers to a world in which, after allowing for exchange rate and default risk, there is a single international rate of interest.

What effect does globalisation have on the likelihood of Keynesian over-saving? To start with, the interest rate safety valve is removed. For if real interest rates are determined globally a country cannot respond to higher attempted savings by its residents by means of lower interest rates.

But another, and probably more important, safety valve comes to replace it. It works like this: a normal country's savings or investment are only a small part of the world's total. Suppose that a country tries to increase its savings and there are no immediate domestic investment opportunities for which they can be used. It can invest the surplus overseas instead.

Under the conventions of national income book-keeping an increase in overseas investment is equivalent to a shift towards surplus in the current balance of payments. If matters work out well, the effect of individuals or governments trying to save more is an increase in overseas assets.

There is no reason in principle why the Japanese savings surplus should not be offset by an increase in overseas assets for a good many years, until the time comes in the next century when the changing demographic balance of the population is expected to lead to a large drop in savings. This could be accomplished without recession and provide a nest egg for the much larger number of old people expected in that country next century. The main reason why Japan has had such difficulty in maintaining this combination of high savings, high foreign investment and strong domestic activity is that the yet exchange rate was for a long time perversely high.

This could have been reversed much earlier than it was by an easier money policy — if necessary by printing yen to buy dollars. (In a global economy, an easy money policy makes itself felt through a lower nominal exchange rate.)

One reason why Japan has found such a logical policy difficult to follow is the economic illiteracy of so many American policy-makers, who have regarded the Japanese payments surplus as a threat rather than a way of financing more world investment than would otherwise be possible. Indeed, until not much more than a year ago, the US positively welcomed a soaring yen in the hope that it would reduce Japanese competitiveness.

The Keynesian threat of over-saving can still come back, however, to haunt us at the international level. All countries cannot run higher current account surpluses or lower deficits. For if we had accurate figures, these imbalances would sum to zero. So it

is still possible to have a Keynesian-type slump in a global economy.

The International Monetary Fund has tried to take on board these concerns by projecting the effects of lower budget deficits (equivalent to higher savings) both in the US, and in the rest of the developed world taken together. The first of these projections is illustrated here.

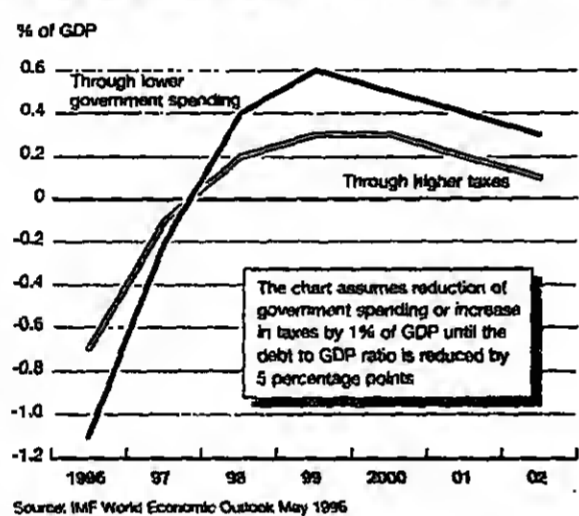
The main effect on which the IMF relies to offset the depressive effects of lower deficits is a fall in real interest rates. It reckons that the increase in government debt ratios among developed countries has raised the average level of world real interest rates by at least 1½ percentage points. It expects that a reduction in debt and deficits would help reverse the trend. The US is a large enough part of the world economy for an increase in savings there to have perceptible effect on the going international interest rate.

But this effect takes time. Even on the IMF simulation, there is a year or two after a US stabilisation programme starts in which output is depressed on Keynesian lines both in America and in the rest of the world. If this setback occurs in the aftermath of a world recession or disappointing recovery, there could still be a danger of triggering a cumulative depression.

There are other interesting details. A large pre-announced programme of long-term government spending cuts is more likely in the IMF's view to boost confidence and bring down interest rates quickly than a series of small steps which may not be maintained. Moreover, a programme of spending cuts is less likely to depress output than the more usual approach which takes the form of tax increases.

Given the uncertainties of all the models, there is reason for relief that countries are likely to try to stabilise their budgets or raise their private savings ratios a few at a time, rather than in one fell swoop.

Effects of debt reduction on US GDP

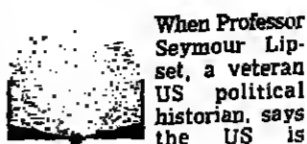


Source: IMF World Economic Outlook May 1996

BOOK REVIEW • Michael Prowse

AMERICAN EXCEPTIONALISM: A Double-Edged Sword
By Seymour Martin Lipset W.W. Norton, 352pp, \$27.50

A nation of extremes bound by one creed



When Professor Seymour Lipset, a veteran US political historian, says the US is "exceptional", he does not mean it is better than other industrial democracies. He means it is different, fundamentally different. The book is an attempt to explain how and why the US diverged from the democratic mainstream.

He is certainly right to emphasise the differences. It is difficult, for example, to imagine Mr Newt Gingrich being elected leader of a popular assembly in other countries. His agenda — which included the abolition of government departments such as commerce and education — would have received scarcely one vote in London, Bonn or Paris.

Nor do the issues which bitterly divide Americans have much resonance elsewhere. This is one of the few rich countries where doctors willing to perform abortions have good reason to fear for their physical safety, and where extremist groups routinely defy the authority of federal government from the safety of heavily-fortified "compound".

The US is a nation of extremes, as is illustrated by its position at either the top or bottom of most international league tables. Adjusting for the purchasing power of currencies, it is still the world's wealthiest nation. It has the lowest taxes, the fastest rate of job creation, the most vigorous philanthropic sector, and largest number of PhDs per capita of any large country.

Yet such advantages are widely seen as offset by a yawning income gap between rich and poor, a crime rate that is roughly three times the international average, the breakdown of the nuclear family in inner cities, and a unique failure to guarantee medical insurance or welfare benefits to everyone in need.

In explaining why the US is out of the mainstream in so many respects, Mr Lipset lays

a good deal of responsibility on three interlinked factors: the nation's origins in a revolutionary war against the British, the political philosophy of its founding fathers, and the development of a religious sensibility quite unlike that in older nations.

As a new society, the US did away with the feudal structures and aristocratic values that still influence public policy elsewhere. There is little tradition of noblesse oblige: the elites thus lack the paternalistic sense of responsibility for the less fortunate that (along with socialism) was a driving force behind the creation of cradle-to-grave welfare states in Europe. Social attitudes, he believes, were also strongly influenced by religion. The US is the only country where most people became members of self-governing sects, such as the Methodists and Baptists, rather than hierarchical, state-sponsored churches.

The sects accentuated an inherent tendency toward individualism and encouraged a belief in the perfectibility of human nature; elsewhere official churches nurtured a greater sense of group responsibility while emphasising man's inherent sinfulness. This difference in religious sensibility, he suggests, helps explain why the Americans are such a moralistic people — why, to this day, they insist on seeing foreign policy conflicts as battles of good against evil (with the US always on the side of the angels).

Out of this unique history there arose a governing ideology — the "American creed" — that incorporated much of the essence of 18th and early 19th century "classical liberalism". The creed is optimistic, individualistic and laissez faire. It is profoundly suspicious of authority, especially that wielded by the state. It is also egalitarian, but only in the limited sense of favouring equality of opportunity and respect, as opposed to result or condition.

In Mr Lipset's view this governing ideology is a "double-

edged sword". The good — and the bad — in US society are inseparable because they follow directly from its embrace of classical liberal values. The American creed, he argues, "fosters a high sense of personal responsibility, independent initiative, and voluntarism even as it encourages self-serving behaviour, atomism, and a disregard for communal good". Its emphasis on individualism, while a great asset, "both weakens social control mechanisms, which rely on strong ties to groups, and facilitates diverse forms of deviant behaviour".

Mr Lipset's analysis is preferable to that of more extreme analysts, on either the left or right, who have an entirely negative view of classical liberalism. At least he concedes that a free market cast of mind is responsible for much that is good in US society. But it is disconcerting that he makes no attempt to justify his claims for the supposed negative effects of classical liberalism. He seems to regard it as self-evident that a philosophy that encourages independence and personal responsibility must encourage selfish behaviour — that pursuing one's own goals must entail a disregard for the communal good.

But why? Classical liberals favour a society in which the coercive power of the state is kept to a minimum and in which the character of economic and social life is determined by voluntary transactions between individuals. It favours co-operation of all kinds, provided it is truly voluntary and not mandated by government. If such a benign philosophy were widely accepted, there would be less, not more, socially disruptive behaviour. Pace Mr Lipset, it is because the American creed is far from universally followed, that US society is so flawed.

American Exceptionalism is available from FT Bookshop by ringing Freecall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please not fax to "line"), e-mail letters.editor@ft.com. Translation may be available for letters written in the main international languages.

US stance on trade has not set WTO adrift

From Mr J. Robert Vastine Jr, Sir, The World Trade Organisation is not at sea. The premise of your editorial "WTO at sea" (May 28) — that the failure to reach final accords in the financial and telecommunications talks, and perhaps the maritime talks, sets the WTO adrift — is wrong.

First, there is ample time, agreed by negotiators, to make successes of the financial and telecommunications sectors. Second, the WTO's job is broader than the service sector talks, and the WTO is making substantial progress in consolidating its new mission and organisation. After all, the

reciprocal trade negotiations effort to reduce tariffs took 60 years. Services will take time too, though not anywhere near as much time.

The main burden of your editorial — that it may have been unwise for the service sectors to have been unbundled and treated separately — is worth considering. It may some day be worth considering seriously, but not now.

Along the way to your main point you repeat a third canon: that the financial services talks failed because of "recalcitrant vested interests". The fact is that offers were not

sufficient to warrant hindering open the US market. A recent US Treasury assessment of the actual financial markets offers proof by other parties shows why.

There was good and ample reason for our negotiators not to make that bargain. The same goes for the telecommunications talks.

Our industry wants successful WTO financial service and telecommunications deals. We want to be able to compete in foreign markets. To achieve this we have only one bargaining chip: bound access to our own market. Some, including you,

argue that that is not a sufficiently big carrot. But trading it off in a bad deal is not going to advance the goal of open world financial markets or secure the benefits that will flow, especially to developing countries, from more efficient capital markets or better, cheaper telecommunications.

Bad service-sector deals will really put the WTO at sea. J. Robert Vastine Jr, president, Coalition of Service Industries, 805 16th Street NW, Washington DC 20005, US

Profits not excessive

From Mr Michael Toms, Sir, Your leading article "Airport profits fly too high" (June 5) on airport regulation was based on two false premises. BAA's airports are not earning excess profits. Inflation-adjusted profits for the last three years have been very close to those targeted by our regulator when the current price formula was set.

The suggestion that BAA is hiding "huge piles of cash" under the tarmac really is wide of the mark. Indeed, the opposite is the case. We're spending it on tarmac, and buildings, and improved facilities to create for the 21st century airports it will need to cope with traffic growth and expectations of customer service. Capital expenditure is running at its highest-ever level and our ongoing \$400m-a-year capital programming means the company will be consuming cash, rather than accumulating it for the next 10 years.

FT readers won't need to be reminded that if we are to provide Britain with its airport infrastructure free of charge to the taxpayer we need to make profits to encourage shareholders to invest in it.

Michael Toms, director, corporate strategy, BAA, 130 Wilton Road, London SW1V 1LQ, UK

Leave the market to dictate ticket prices

From Mr Glenn Weitman, Sir, I was surprised to see the FT carrying as its lead story a little piece of local news concerning "grey" markets in tickets for soccer matches ("Illegal ticket sales threat to Euro 96", June 5). Perhaps next month you will lead with photographs of policemen arresting ticket sellers outside Wimbledon.

The prejudice against ticket touts is incomprehensible and the intervention of the criminal law is ludicrous. What possible concern is it to the state if one party wishes to sell a ticket to another party at a freely negotiated price? If the organiser of an event wishes to prevent resale, then, as with travel tickets, non-transferability could be made a condition of the original sale and any breach

remedied through the civil courts. Officials who misappropriately tickets or sell them fraudulently are already committing criminal offences. There is no need for special legislation.

The root of this non-problem is the familiar blend of amateurism, incompetence, petty corruption and a visceral mistrust of the market mechanism. If promoters insist on issuing tickets well below the price which customers are willing to pay, then the market will find a way of bridging the gap — it's as simple as that, although the athletic community can't seem to grasp the point. Indeed they compound the problem by issuing tickets cheaply to officials, clubs and others who intend from the start to re-sell them. The system might

almost be designed to encourage corruption.

Private associations are of course free to favour members over non-members when tickets are in short supply and modern technology is capable of ensuring that the ticket is really used by the person to whom it was issued. If promoters are too stupid or too parsimonious to invest in this technology, then any losses they suffer are of no concern to the rest of us. *Caveat venditor* should be principle. Or is it perhaps the case that too many of those involved in organising the events have a vested interest in the money and favours which flow from the grey market?

Glenn Weitman, 15 College Road, London SE21 7BG, UK

Social effects of market reform need support

From Mr Robert Davies, Sir, The Czech election results ("Czech reforms stall after poll setback for Klaus coalition", June 3) are the latest in a series of signals to reforming governments in central Europe, and indeed further afield in India, that the pace of market reform is threatened when electorates perceive benefits as slow to arrive at a time when change brings insecurity. Polarisation might be avoided to some extent when

international investors and leading indigenous industries ensure that they operate as partners to assist public sector reform, and in support of community initiatives to tackle the social effects of transition. Key areas for partnership are training and human relations development at all levels, the sharing of management skills and environmental know-how, and assisting the voluntary groups essential to civil society.

In our experience this is both achievable and widely regarded as a valuable contribution to development and reconstruction. The challenge is to increase the scale and impact as part of the mainstream approach to sustainable reform.

Robert Davies, chief executive, The Prince of Wales Business Leaders Forum, 15-16 Cornhill Terrace, Regent's Park, London NW1 4QP

AP
AUDEMARS PIGUET
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"OUR AIM IS TO CREATE THE
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COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
+44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday June 6 1996

Choosing a UN leader

1991, when Boutros Boutros Ghali was chosen as UN secretary-general, he said he would serve one five-year term. In the last years he has backed away from that pledge...

(drawn up by a Dutch general and a British colonel), but his hand was forced by newspaper leaks suggesting the UN "would not have the courage" to release it.

Treasured truth

official: the UK's Treasury makes mistakes. Or is it? The only leaked admission of failure came from a draft internal management document produced for the Treasury's fundamental expenditure review...

that is the preferred approach. There are two sets of questions to answer. First, is it right for any department to have so many responsibilities? Can it do any of them really well?

Poaching bankers

markets driven by fear are always as rational as markets driven by greed. That is what is worrying about the frenzied pursuit of investment banking talent, which driving up pay for experienced bankers and leading to the poaching of whole teams.

ing scale, are scared that their core business is about to become permanently unprofitable. Investment banking margins do not look too exciting to those already in the field.

Open season on fat cats

Michael Cassell on why the number of executives in the line of fire over 'excessive' remuneration is growing

Mr Tim Holley's number was up yesterday. The unsuspecting chief executive of Camelot, the UK lottery operator, found himself splashed across newspaper front pages as public enemy number one.

British Cas, to be remembered not for his achievements as chief executive but for a £490,000 pay packet and his portrayal as a pig with his snout in the corporate trough.

chief executive of BZW, the investment banking arm of Barclays. No-one chose to make mischief over a salary likely to be at least £2m a year and the bank's recent decision to shed another 1,000 jobs.

ers, was enthusiastically grabbed by the media: "The evidence suggests that consumers increasingly see many businesses as demonstrating the same lack of ethics associated with politics," says Ms Katrina Michel of Ogilvy & Mather, the advertising agency.



Advice to executives: how to claw back credibility

- Be the boxer and not the punchbag. Be bold, courageous and on the front foot.
Look and sound the part. Top executives, especially those who have risen through the ranks from technical jobs, are often uncomfortable when they find themselves in the public eye.
Be aware of the power of symbolism. Early on, unflashy, conservative headquarters, entertaining and the other trappings of corporate life are powerfully symbolic of la-cattary.

OBSERVER

Mind Helmut for me

Jacques Chirac and Helmut Kohl can't get enough of each other, it would seem. Last month, the pair took a decision to meet every six weeks or so. At the start of yesterday's Dijon get-together, one of the regular twice-yearly Franco-German summits, the two leaders evidently felt that four hours of talks and dinner would not be enough to exhaust their agenda.

Full force of the Tony Blair charm offensive. The Labour leader's face is plastered across the front cover of yesterday's issue of Wirtschaftswoche, the business weekly, to mark an exclusive interview. Not for him a cover story in Der Spiegel, the magisterial organ of the German Left. His audience is clearly commercial.

when he pitches up to talk to the BDI. The opening sentence of the European Space Agency's press release concerning the Ariane disaster: "The first Ariane 5 flight did not result in validation of Europe's new launcher."

fumes. So the newspaper suggests pouring water over the videos and using the opium as fertiliser for trees. The only question is what the writer has been smoking. Taxing task: French prime minister Alain Juppé's "five wise men", asked to recommend changes to the country's tax system, have not wasted any time.

100 years ago

The United States and Cuba Senator Morgan of Alabama asked in the Senate that action be taken on his resolution requesting President Cleveland to supply Congress with information as to the capture of the schooner "Comet" by a Spanish man-of-war. The case, Mr. Morgan urged, was one of the greatest gravity, and it was the duty of the President under the Constitution to keep Congress informed with regard to matters of public interest.

50 years ago

Adelaide Electric The directors of the Adelaide Electric Supply Company have deposited a petition with the Dominions Office praying that Royal Assent be not given to the Electricity Trust Bill which finally passed the South Australian Legislative Council on 17th April by a one-vote margin. The object of the Bill is for the acquisition by the State Government of the undertaking.

Blair's business

Now it's the turn of the German business establishment to feel the

Spaced out

The opening sentence of the European Space Agency's press release concerning the Ariane disaster:

Video nasty

Vietnam is having a rather successful campaign to stamp out pornography and drugs - all of them nasty pollutants that definitely rank as "social evils" in Hanoi's book.

If it's 10:34

A study conducted by the Andrology Institute of Lexington, Kentucky has discovered an interesting fact. The most popular time of day for having sex seems to be 10:34 pm.

With thanks to Robert Blood, corporate communications consultant; Simon Lewis, president-elect, Institute of Public Relations; Quentin Ball, Public Relations Consultants Association; Derek Saffer, London Electricity; and David Lake, Countrywide Communications. Diane Summers

LEGAL DEFINITIONS
 Joint venture n. 1 trip inspired by illegal substance (orig. assets) 2 annual orthopaedic holiday 3 business planned by two or more persons, companies etc. see NEWS & MARK: asp (alt 0171-248 4282)
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 LAWYERS FOR BUSINESS

FINANCIAL TIMES

Thursday June 6 1996

SENIOR FLEXONICS
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Santer advocates more flexible working hours EU companies say price pressure at 30-year high

By Lionel Barber in Brussels, Gillian Tett in London and Peter Norman in Bonn

Manufacturers in the European Union believe price pressures are the toughest for almost 30 years, according to a European Commission survey which also shows consumer concern about unemployment continuing to grow.

The survey was released yesterday as Mr Jacques Santer, Commission president, said more flexible working hours, including parental leave, could make a significant contribution to tackling the work crisis in Europe.

The Commission survey of 23,000 businesses in 12 member states showed that business confidence fell again in May. It has been on a downward trend for 17 months. A slight majority of the businesses said they expected to cut prices as a result of falling order books and high stock levels - the lowest price expectation since 1963.

The decline in price expectations suggests that inflation could fall further this summer, bolstering hopes of further interest rate cuts which the Commission believes should reinforce the trend toward an economic upturn

in the second half of the year. The weaker business sentiment had a knock-on effect on consumer confidence, with a sizeable majority of households expecting unemployment to rise over the next year.

And though households remain cautiously optimistic about their own finances, they are getting gloomier about the overall economic outlook.

Mr Santer told the European Parliament a reorganisation of working time would be central theme in forthcoming talks with business and trade unions on his proposed pact of confidence on employment.

Mr Santer hopes to make the pact the centrepiece of the EU summit in Florence on June 21-22, despite scepticism among employers and trade unions.

His speech to MEPs was generally well-received, though one complained that it was a "colossal built on feet of clay".

Mr Santer said he favoured a comprehensive approach to the unemployment crisis, based on exploiting the full potential of the single market, raising an extra Ecu1bn (\$1.24bn) to trigger funding for the trans-European infrastructure networks, and target-

ing the annual Ecu14bn EU regional aid more effectively.

Last month, Unice, the European employers' federation, criticised the Commission for assuming a lead role in tackling unemployment. Mr Francois Perrot, president, said that employers and trade unions could not supplant national governments and that "meaningful agreement on unemployment cannot be negotiated at a European level".

Yesterday, German and French business leaders said Mr Santer's plans could arouse false expectations and could be no substitute for effective action by the French and German governments to stimulate employment.

Mr Jean Gandois, head of the Patronat, the French employers' federation, said after a meeting with Mr Hans-Olaf Henkel, president of the German industry federation, that Mr Santer's proposals ignored the different social developments in France and Germany in the past 60 years.

Mr Santer was careful yesterday to avoid committing the Commission to its earlier "scenario" for halving the number of people out of work by 2000.

Recession fears revised, Page 2

European media alliance dies amid acrimony

By Judy Dempsey in Berlin and Raymond Snoddy in London

The ambitious digital television alliance between Bertelsmann of Germany, Canal Plus of France and British Sky Broadcasting last night collapsed with the would-be partners attacking each other.

Bertelsmann said yesterday that BSKyB, controlled by Mr Rupert Murdoch's News Corporation, had unreasonably pulled out of the deal.

But it is clear that both BSKyB and Canal Plus were exasperated by the lack of progress of the venture in a race against the Kirch group to establish digital television in Germany.

A Bertelsmann official said yesterday: "Murdoch was too impatient. You can't do business in that way here. He did not realise it takes time to enter the European market."

Canal Plus, the French pay-TV company, accused Bertelsmann of ignoring repeated requests for a top calibre chief executive to be appointed to run the multi-million project.

There was also said to be confusion on whether programme acquisition deals were for Bertelsmann's existing television interests or the new "digital platform".

Privately, Bertelsmann acknowledges that the deal is dead. BSKyB is hoping to co-operate more with Canal Plus in future.

Mr Rolf Schmidt-Holtz, a board member of BMG, Bertelsmann's entertainment division, said the group would press ahead with launching a digital television network in Germany and France with Viac/CA of Luxembourg, and Canal Plus and Havas of France.

That alliance would provide the content, while the Multi-Media Betriebsgesellschaft (MMBG) consortium headed by Bertelsmann and Deutsche Telekom would provide the technical standardisation for digital television.

Bertelsmann was informed of Mr Murdoch's decision to pull out earlier this week.

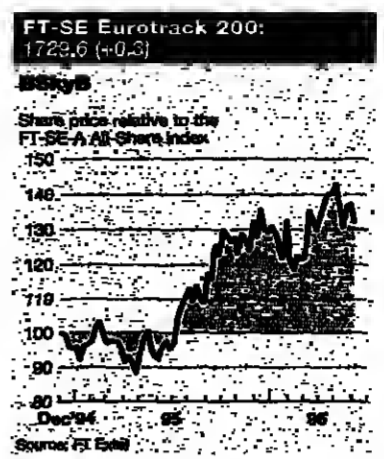
"We can live without Murdoch," a Bertelsmann official said. "We got our fingers burnt, but not too much. We have the green light from the competition authorities in Germany and Brussels for MMBG. And we are still on schedule to launch our digital television later this year."

Bertelsmann officials said Mr Murdoch withdrew because it was unclear what role Premiere, Germany's only pay-TV network, would play. Premiere, owned jointly by Bertelsmann, Canal Plus and the Kirch media group, was crucial for the success of the alliance since it would have provided a ready-made audience of more than 1m viewers.

THE LEX COLUMN

Digital divorces

The web of relationships in European media is beginning to resemble one of Mr Rupert Murdoch's soap operas. First, Mr Murdoch's BSKyB was courted Canal Plus, then Canal Plus and Bertelsmann looked like an item, while Mr Murdoch wooed Kirch, and finally BSKyB, Canal Plus, Havas and Bertelsmann got together. Except this relationship was never consummated, so the wife-swapping is due to start all over again.



Of course, with so many eggs from so many different nations, there is little prospect of a marriage made in heaven. But there is every reason to try. The prize is a stake in a digital television revolution that is spreading throughout Europe. Germany alone looks like a bigger version of the British market before the advent of satellite TV - and Britain's BSKyB now has a market value of £7.6bn, built by developing its home base.

The obvious alternative alliances would be BSKyB and Kirch, with the rest of the Bertelsmann alliance remaining intact. But anything could happen. At least BSKyB is in a strong position, since it has a stranglehold on the UK market, which continues to grow and has the additional prospect of digital TV. Canal Plus, however, is cooped up in the more mature French market, where it is about to face competition from its ally, Bertelsmann, via CLT.

The real winner from the collapse of this media alliance must be the Bavarian media mogul, Mr Leo Kirch. He is about to launch his pay-TV channels in Germany. If he can establish his channels with German viewers before a strong competitor emerges, he is going to be extremely hard to dislodge.

one has yet come up with a way of controlling remuneration. Salomon, for example, was forced to backtrack on its own laudable efforts when threatened with mass defection. Tying staff more closely to companies through equity stakes is a partial solution, which many have already embraced. But ironically, perhaps the only way for these lovers of market forces to stem the tide of bulging pay would be to form themselves into some sort of employers' union and go on a poaching strike.

Since this is clearly unlikely, investment banking will remain a better industry to work in than invest in: investors may lose their shirts when the cycle turns, and youthful traders who bet on markets may lose their jobs if they get it wrong. The difference is that investors are not rewarded with multi-million dollar bonuses in the good times.

business (brake pads and timings) with Lucas is much less compelling. BBA's second problem is that at half Lucas' size it will have to pull out all the stops to finance a credible bid. An all-share offer (with a partial cash alternative) pitched around 300p per Lucas share would cost more than £2.5bn. To avoid earnings dilution, BBA would need to raise margins at Lucas from 7 to 10 per cent in the first year - a very tall order.

In BBA's favour, Mr Bob Quarta, its chief executive, has a great record and Lucas could do with a dose of his aggressive management. BBA is also right to focus on the fact that the proposed Lucas/Variety deal promises much but delivers nothing up front for shareholders. Lucas/Variety could remedy that - and make life very difficult for BBA - by promising to pay a special dividend if its merger goes ahead.

Alders/Swissair/BAA

The squabble over Alders' duty-free business has got out of hand. The clear winners are Alders' shareholders, who are being offered a handsome price of £160m for a less than sparkling asset. But everybody else emerges from the episode a loser.

Alders' board, for a start, must feel pretty silly. If the sale had not needed shareholder approval, BAA would have won control for £150m - despite Swissair's willingness to pay more. To be fair, BAA had Alders over a barrel at the time - and Swissair had not bid conclusively. But given Swissair's evident desperation, this simply suggests Alders' handling of the negotiations was inept.

BAA has had the good sense to walk away rather than bid yet higher. But if, as seems likely, BAA cancels its contracts with Alders to set up its own duty-free business, its shareholders should protest. For BAA to plunge into a business requiring sophisticated distribution networks, and from which it can already extract the juiciest returns through rents, would be a classic case of pointless, high-risk utility diversification.

But Swissair looks the biggest victim of its success. True, there should be modest synergies from adding to the purchasing power of its existing duty-free side. But it is still buying a business likely to make pre-tax profits of £15m next year, about half of which will probably evaporate if the BAA contracts are cancelled. Deduct tax, and Swissair is paying an absurd 30 or so times earnings for a business constantly at the mercy of airports, and facing the abolition of European duty-free sales in 1999.

Lucas Industries/BBA

Lucas has been a takeover target for so long that it would be a supreme irony if a bid materialised now. The proposed £3.2bn merger with Variety of the US looks like providing Lucas with scale, strategy and respected management - the first time it has enjoyed that combination in living memory.

If BBA, the engineering group, decides to launch a hostile offer nonetheless, it will have to explain why it did not move earlier, when Lucas could have been knocked out for a lot less money.

BBA's case is weak on two other counts. Marrying Lucas and Variety would create the world's second largest braking business, capable of offering car makers integrated systems led by electronics know-how. Combining BBA's commodity friction materials

Investment banking jobs

There is nothing new about team defections and bulging bonuses in investment banking. The only novelty is that senior executives are speaking out about something usually defended as the legitimate operation of market forces.

Yesterday's protest by ING's Mr Hessel Lindenbergh about the poaching activities of Deutsche Morgan Grenfell is the latest in a series of expressions of disquiet about the jobs market. Team hirings exacerbate the fundamental problem - the extraordinarily high remuneration levels in an industry where many firms pay guaranteed bonuses to mediocre performers, give astronomical bonuses to successful staff, and are frequently held to ransom by disgruntled employees.

It is a healthy sign that industry leaders are voicing concern, but no

Indian government in pledge to strengthen public sector

By Mark Nicholson in New Delhi

India's United Front government yesterday gave the first taste of its governing agenda in a document which promised continued economic deregulation but also put heavy emphasis on strengthening the public sector.

It promised fiscal discipline but indicated several areas of increased government spending, adding that foreign investment in "low priority" areas - unspecified but likely to include consumer goods industries - would be "discouraged".

The 25-page "minimum programme" outlines little change in foreign policy, saying the United Front would "work for universal nuclear disarmament" and that India, which is not a signatory to the non-proliferation treaty, would "retain the nuclear option" until this was achieved.

The policy announcement followed days of backroom talks

among the 13 parties which comprise the UF, led by Mr H.D. Deve Gowda, prime minister.

The UF is expected to win comfortably a parliamentary vote of confidence next week, with Congress party support. Congress, badly defeated in last month's general election, has indicated it would withdraw its backing if the coalition reversed the programme of economic reform started in 1991.

Although short on detail, the document strongly reflects the regional and "social justice" components of the coalition in promising to devolve greater powers and resources to the states, while emphasising a commitment to "reserved" public sector jobs for women and the lower castes.

The document also bears the mark of compromise between convinced reformers, personified by Mr P. Chidambaram, finance minister, and leftwing components of the coalition.

It said the UF was committed

to foster growth and continued industrial deregulation and decontrol "as required".

But it laid emphasis on domestic and public investment to achieve this, saying that "at the margin" the country needed foreign investment and had the capacity to absorb \$10bn a year in foreign direct investment - five times current levels.

Mr Jaipal Reddy, UF spokesman, said the government would respect undertakings with foreign groups already operating in India. He also suggested India's state-dominated insurance industry would be opened up to private and foreign investors along the lines of the cautiously liberalised banking sector.

But in a shift of emphasis from the preceding Congress government, the document argues the need to strengthen existing public sector enterprises, currently a heavy drain on India's economy, and indicates the UF will be reluctant to privatise industries.

Big Dutch bank takes over fund manager

Continued from Page 1

power, but is also able and willing to finance necessary international expansion," Mr Pieter Korteweg, chairman, said.

In turn, Rabobank spoke of its need to cultivate asset management expertise to achieve

its international ambitions.

As a result of the deal, Robeco "will become a one hundred per cent daughter of Rabo," Mr Korteweg said. However, he stressed that the two companies hoped to strike a "modern, networked, non-hierarchical relationship" under which Robeco would

retain autonomy over internal management.

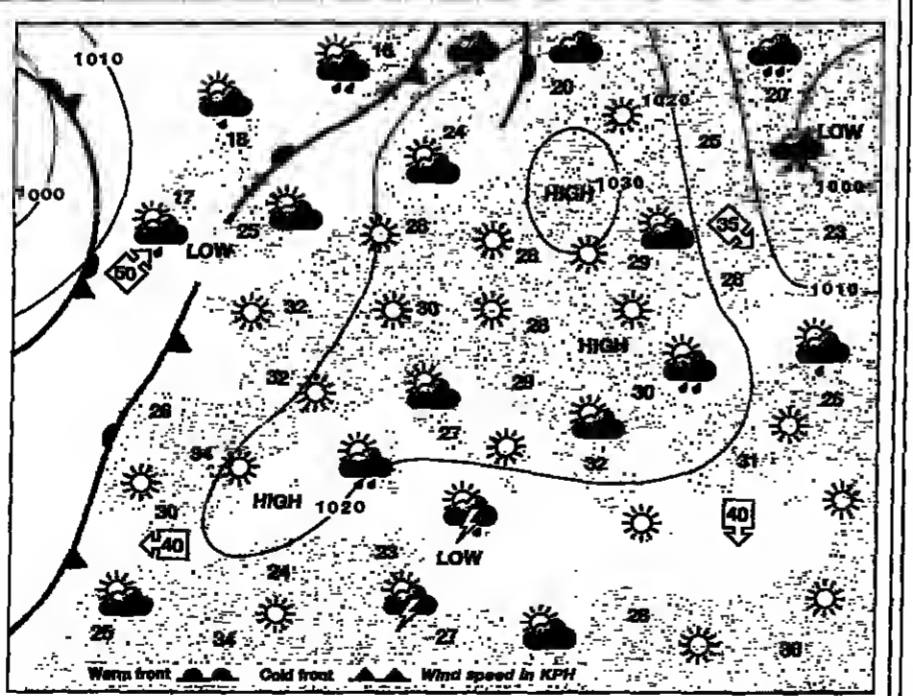
However, Mr Wijffels stressed that important strategic decisions such as investments, further acquisitions, and essential management choices must be approved ultimately by Rabobank.

See Lex

FT WEATHER GUIDE

Europe today
 Unsettled conditions will prevail over the British Isles and Ireland. There will be a few light showers in southern Ireland and northern England. Western Europe will be sunny with temperatures between 25C and 30C over a wide area from the Benelux and Germany across France into the Iberian peninsula. North-western Portugal and Spain will have thunder showers during the afternoon. High pressure will promote sunny conditions from the Baltics to the Alps and into the northern Balkans. There will be showers in Sardinia, southern Italy and Bulgaria. Greece and the eastern Mediterranean will be sunny and warm.

Five-day forecast
 High pressure will continue over central and southern Europe during the next couple of days. Thunder showers will spread into western Europe during the weekend. The British Isles will be sunny with occasional showers in the north. The Baltics and the Balkans will stay sunny.



TODAY'S TEMPERATURES

Abu Dhabi	sun	42	Belgrade	sun	30	Caracas	cloudy	31	Faro	sun	28	Madrid	sun	31	Rangoon	showers	31
Accra	thund	28	Berlin	sun	31	Chicago	thund	25	Gibraltar	sun	28	Melbourne	cloudy	22	San Francisco	cloudy	26
Algiers	sun	24	Buenos Aires	cloudy	25	Colombo	sun	31	Hong Kong	sun	28	Nairobi	cloudy	24	Singapore	thund	32
Amsterdam	sun	28	Delhi	sun	40	Dubai	sun	41	Hankow	sun	28	Shanghai	sun	31	Sydney	sun	22
Athens	sun	30	Dhaka	sun	30	Hanoi	sun	30	Hong Kong	sun	28	Seoul	sun	28	Taipei	sun	28
Atlanta	sun	32	Dubai	sun	41	Hong Kong	sun	28	Hong Kong	sun	28	Singapore	thund	32	Tokyo	sun	28
Bahia	sun	28	Hong Kong	sun	28	Hong Kong	sun	28	Hong Kong	sun	28	Tokyo	sun	28	Tokyo	sun	28
Bangkok	thund	28	Hong Kong	sun	28	Hong Kong	sun	28	Hong Kong	sun	28	Tokyo	sun	28	Tokyo	sun	28
Batavia	sun	28	Hong Kong	sun	28	Hong Kong	sun	28	Hong Kong	sun	28	Tokyo	sun	28	Tokyo	sun	28

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